

NEW ISSUE – BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to The Regents, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2010 Series S Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). In the further opinion of Bond Counsel, interest on the 2010 Series S Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Interest on the 2010 Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the 2010 Series T Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Bonds, including whether interest on the 2010 Series S Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. See “TAX MATTERS” herein.



**THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
GENERAL REVENUE BONDS**

**\$75,395,000 2010 SERIES S
\$10,100,000 2010 SERIES T (TAXABLE)**

Dated: Date of Delivery

Due: May 15, as shown on inside cover

The Regents will use the proceeds of the sale of the 2010 Series S Bonds and 2010 Series T Bonds to finance and refinance the acquisition and construction of all or a portion of certain facilities of the University of California (the “University”), including, but not limited to, academic facilities, housing, research facilities, facilities renewal projects, infrastructure projects and other facilities of the University.

The Regents of the University of California General Revenue Bonds 2010 Series S (the “2010 Series S Bonds”) and 2010 Series T (Taxable) (the “2010 Series T Bonds”) and together with the 2010 Series S Bonds, the “2010 Bonds”) will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository of the 2010 Bonds. Individual purchases will be made in book-entry form only, in principal amounts of \$5,000 or any integral multiples thereof. Purchasers will not receive certificates representing their interests in the 2010 Bonds purchased.

Interest on the 2010 Bonds is payable on November 15, 2010 and semiannually thereafter on May 15 and November 15 of each year. The interest, principal or redemption price of the 2010 Bonds are payable by The Bank of New York Mellon Trust Company, N.A. as successor trustee, to DTC. DTC is required to remit such principal or redemption price and interest to its Participants for subsequent disbursement to the Beneficial Owners of the 2010 Bonds, as described herein. The 2010 Bonds are subject to redemption prior to their stated maturities, as described herein.

This cover page contains information for quick reference only. It is not a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

**MATURITIES, AMOUNTS, INTEREST RATES, AND PRICES OR YIELDS
SEE INSIDE COVER**

The 2010 Bonds are limited obligations of The Regents, payable solely from General Revenues, the proceeds of the Bonds and any other amounts held in any fund or account established pursuant to the Indenture (excluding the Rebate Fund), as described herein. The 2010 Bonds and all other Bonds issued pursuant to the Indenture are entitled to the equal benefit, protection and security of the pledge and covenants and agreements of the Indenture, as hereinafter described. The Indenture permits The Regents to incur additional Indebtedness secured by a pledge and lien on General Revenues senior in priority, or on a parity, or subordinate in priority with the pledge and lien of the Indenture, as described herein. The 2010 Bonds will not constitute a liability of or a lien upon the funds or property of the State of California or of The Regents, except to the extent of the aforementioned pledge and lien of the Indenture. The Regents has no taxing power.

The 2010 Bonds are offered when, as and if issued, subject to the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for The Regents by its Office of General Counsel and certain legal matters will be passed upon for the underwriters by O’Melveny & Myers LLP, counsel to the underwriters, and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel to The Regents. It is anticipated that the 2010 Bonds will be available for delivery to DTC in New York, New York, on or about April 14, 2010.

M.R. Beal & Company

Morgan Stanley

**Alamo Capital
Prager, Sealy & Co., LLC**

**Backstrom McCarley Berry & Co., LLC
SL Hare Capital, Inc.**

**Nollenberger Capital Partners Inc.
Wedbush Securities**

Dated: March 31, 2010

MATURITY SCHEDULE

2010 SERIES S BONDS

Maturity (May 15)	Amount	Interest Rate	Price or Yield	Maturity (May 15)	Amount	Interest Rate	Price or Yield
2016	\$8,855,000	5.000%	2.630%	2021	\$275,000	4.000%	3.630%**
2016	1,675,000	3.000	2.630	2022	370,000	4.000	3.730**
2017	11,025,000	5.000	2.980	2023	580,000	4.000	3.900**
2018	11,000,000	5.000	3.220	2026	610,000	4.000	4.130
2018	575,000	4.000	3.220	2027	635,000	4.125	4.210
2019	12,145,000	5.000	3.420*	2028	660,000	4.250	4.280
2020	11,480,000	5.000	3.560*	2029	690,000	4.250	4.300
2020	1,275,000	4.000	3.560**	2030	720,000	4.125	4.310

\$4,135,000 5.000% Term Bond due May 15, 2035 Yield: 4.590%**

\$8,690,000 5.000% Term Bond due May 15, 2040 Yield: 4.670%**

2010 SERIES T BONDS (TAXABLE)

\$2,690,000 4.983% Term Bond due May 15, 2020 Price: 100%

\$2,875,000 5.533% Term Bond due May 15, 2025 Price: 100%

\$4,535,000 6.124% Term Bond due May 15, 2035 Price: 100%

* Priced to the May 15, 2018 101% call date.

** Priced to the May 15, 2019 par call date.

Summaries of provisions of the Indenture relating to the 2010 Bonds and the Continuing Disclosure Agreement contained herein do not purport to be complete descriptions of the provisions thereof, and such summaries are qualified by reference to the Indenture and the Continuing Disclosure Agreement for full particulars of the 2010 Bonds, the Indenture and the Continuing Disclosure Agreement, respectively. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of The Regents since the date hereof.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of 2010 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by The Regents.

This Official Statement contains statements which, to the extent they are not recitations of historical facts, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” and similar expressions are intended to identify forward-looking statements. A number of important factors, including factors affecting The Regents’ financial condition and factors which are otherwise unrelated thereto, could cause actual results to differ materially from those stated in such forward-looking statements.

The references to internet websites shown in this Official Statement are shown for reference and convenience only; the information contained within the websites is not incorporated herein by reference and does not constitute part of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
THE 2010 BONDS	4
General	4
Additional Bonds	4
Redemption	5
Book-Entry Only System	9
PLAN OF FINANCE.....	9
Financing for New Projects	9
Refunding Prior Obligations	9
SECURITY FOR THE BONDS.....	10
Indebtedness.....	11
ESTIMATED SOURCES AND USES OF FUNDS	13
TAX MATTERS	13
CIRCULAR 230 Disclosure for 2010 Series T Bonds (Taxable)	16
CERTAIN LEGAL MATTERS	16
LITIGATION	16
RATINGS	16
UNDERWRITING	17
MISCELLANEOUS	17
APPENDIX A THE UNIVERSITY OF CALIFORNIA	A-1
APPENDIX B THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009.....	B-1
APPENDIX C SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT.....	C-1
APPENDIX D FORM OF BOND COUNSEL OPINION FOR 2010 BONDS	D-1
APPENDIX E BOOK-ENTRY ONLY SYSTEM.....	E-1

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2010 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

OFFICIAL STATEMENT

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

GENERAL REVENUE BONDS

\$75,395,000 2010 SERIES S
\$10,100,000 2010 SERIES T (TAXABLE)

INTRODUCTION

The purpose of this Official Statement (the “Official Statement”) is to set forth certain information concerning The Regents of the University of California General Revenue Bonds 2010 Series S issued in the aggregate principal amount of \$75,395,000 (the “2010 Series S Bonds”) and The Regents of the University of California General Revenue Bonds 2010 Series T (Taxable) issued in the aggregate principal amount of \$10,100,000 (the “2010 Series T Bonds” and collectively with the 2010 Series S Bonds, the “2010 Bonds”).

The 2010 Bonds are authorized to be issued pursuant to the powers and authority of The Regents of the University of California (“The Regents”) contained in Article IX, Section 9 of the Constitution of the State of California. The 2010 Series S Bonds and the 2010 Series T Bonds are issued in accordance with the provisions of an indenture dated as of September 1, 2003 (the “General Revenue Bond Indenture”) as previously amended and supplemented and as further supplemented by the Nineteenth Supplemental Indenture and the Twentieth Supplemental Indenture, each dated as of April 1, 2010 (as so amended and supplemented, the “Indenture”), by and between The Regents and The Bank of New York Mellon Trust Company, N.A. as successor trustee (the “Trustee”).

Prior to the issuance of the 2010 Bonds, The Regents has issued under the Indenture, and there remain Outstanding, Bonds in the aggregate principal amount of \$5,851,685,000 as shown in Table 1 below:

Table 1
General Revenue Bonds as of March 1, 2010

<u>Series</u>	<u>Amount Outstanding</u>
2003 Series A	\$725,260,000
2003 Series B	299,535,000
2005 Series C	244,155,000
2005 Series D	27,900,000
2005 Series E	80,160,000
2005 Series F	423,035,000
2005 Series G	306,565,000
2005 Series H	21,805,000
2005 Series I	20,540,000
2007 Series J	1,107,210,000
2007 Series K	231,200,000
2008 Series L	208,025,000
2008 Series M	35,345,000
2008 Series N	3,835,000
2009 Series O	732,630,000
2009 Series P	61,590,000
2009 Series Q	300,620,000
2009 Series R	<u>1,022,275,000</u>
Total	\$5,851,685,000

The 2003 Series A Bonds, the 2003 Series B Bonds, the 2005 Series C Bonds, the 2005 Series D Bonds, the 2005 Series E Bonds, the 2005 Series F Bonds, the 2005 Series G Bonds, the 2005 Series H Bonds, the 2005 Series I Bonds, the 2007 Series J Bonds, the 2007 Series K

Bonds, the 2008 Series L Bonds, the 2008 Series M Bonds, the 2008 Series N Bonds, the 2009 Series O Bonds, the 2009 Series P Bonds, the 2009 Series Q Bonds, the 2009 Series R Bonds, the 2010 Series S Bonds and the 2010 Series T Bonds and any additional Bonds to be issued under the Indenture from time to time are collectively referred to herein as the “Bonds.”

The University of California (the “University”), established in 1868, is the public institution of higher education designated by the State of California in its master plan for higher education for the training of individuals for the professions, for the awarding of doctoral degrees in all fields of human knowledge, and for the conduct of research. The Constitution of the State of California 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 as may be necessary to ensure the security of its funds and compliance with endowments of the University and such competitive bidding procedures as may be made applicable to the University by statute for the letting of construction contracts, sales of real property, and purchasing of materials, goods and services.

Proceeds of the 2010 Bonds will be used to finance and refinance the acquisition and construction of all or a portion of certain facilities of the University, including, but not limited to academic facilities, housing, research facilities, facilities renewal projects, infrastructure projects and other facilities of the University.

The 2010 Bonds are limited obligations of The Regents, payable solely from General Revenues, the proceeds of the Bonds and any other amounts held in any fund or account established pursuant to the Indenture (excluding the Rebate Fund), as hereinafter described. The 2010 Bonds and all other Bonds issued pursuant to the Indenture are entitled to the equal benefit, protection and security of the pledge and covenants and agreements of the Indenture, as hereinafter described. The Indenture permits The Regents to incur additional Indebtedness secured by a pledge and lien on General Revenues senior in priority, on a parity, or subordinate in priority with the pledge and lien of the Indenture, as described herein. See “SECURITY FOR THE BONDS,” and “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT – THE INDENTURE – Pledge.” The Bonds do not constitute a liability of or a lien or charge upon the funds or property of the State of California or of The Regents, except to the extent of the aforementioned pledge and lien of the Indenture. The Regents has no taxing power.

The Regents has covenanted for the benefit of the registered owners and Beneficial Holders of the 2010 Bonds to provide certain financial information and operating data relating to the 2010 Bonds (the “Annual Report”) not later than seven (7) months after the end of The Regents’ Fiscal Year (which Fiscal Year currently ends June 30), commencing with the report for the Fiscal Year ending June 30, 2010, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) System. The specific nature of the information to be contained in the Annual Report and in the notice of material events is summarized in “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT – THE CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriters of the 2010 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Regents has never failed to comply in all

material respects with any previous undertaking with regard to the Rule to provide annual reports or notices of material events.

This Official Statement contains brief descriptions of the 2010 Bonds, security for the Bonds, The Regents, the Continuing Disclosure Agreement and the Indenture. General information concerning the University is contained in Appendix A. The audited Annual Financial Report of the University for the year ended June 30, 2009 is contained in Appendix B. The information contained in Appendix B describes funds and other assets of The Regents that are not pledged as security for the Bonds.

Unless otherwise expressly stated, all financial and other data included herein have been provided by The Regents. The summaries of the Indenture and the Continuing Disclosure Agreement contained herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Indenture and the Continuing Disclosure Agreement. Copies of the Indenture and the Continuing Disclosure Agreement may be obtained from the Trustee or The Regents. See “MISCELLANEOUS.”

Capitalized terms used herein which are not otherwise defined have the meanings set forth under the heading “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT – THE INDENTURE – Definitions.”

THE 2010 BONDS

General

The 2010 Bonds are issued in fully registered form in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”). Each 2010 Bond shall bear interest from the Interest Payment Date next preceding the date of registration thereof unless such date of registration is an Interest Payment Date, in which event it shall bear interest from the date of registration thereof, or unless it is registered on or before the first interest payment date, in which event it shall bear interest from the date of original delivery, and the 2010 Bonds shall mature on the dates and in the principal amounts set forth on the inside cover page hereof, subject to the rights of prior redemption described hereinafter.

Interest on the 2010 Bonds is payable on November 15, 2010 and semiannually thereafter on May 15 and November 15 of each year to each registered owner of the 2010 Bonds as of the close of business on the first day of the month in which an Interest Payment Date occurs. The principal or redemption price of the 2010 Bonds is payable at the corporate trust office of the Trustee in San Francisco, California. See “— Book-Entry Only System.”

Additional Bonds

Additional bonds secured equally and ratably by the lien of the Indenture on General Revenues (“Additional Bonds”) may be issued by The Regents under and pursuant to the Indenture and subject to the conditions set forth therein. In addition, The Regents may incur other additional Indebtedness secured by a Senior Lien or a Parity Lien or a Subordinate Lien on

General Revenues subject to the conditions set forth in the Indenture. See “SECURITY FOR THE BONDS.”

Redemption

Optional Redemption.

The 2010 Series S Bonds maturing on or before May 15, 2018 are not subject to redemption prior to their respective stated maturities. The 2010 Series S Bonds maturing on or after May 15, 2019 are subject to redemption prior to their respective stated maturities, at the option of The Regents from lawfully available funds deposited in the 2010 Series S Bonds Optional Redemption Subaccount of the Optional Redemption Account as a whole or in part on any date on or after May 15, 2018 (in such order of maturity as shall be selected by the Trustee upon direction by The Regents and by lot within a maturity), at the following redemption prices (expressed as a percentage of the principal amount of the 2010 Series S Bonds called for redemption), together with interest accrued thereon to the date fixed for redemption:

Redemption Date	Redemption Price
May 15, 2018 to May 14, 2019	101%
May 15, 2019 and thereafter	100%

The 2010 Series T Bonds are subject to redemption prior to their stated maturities at the option of The Regents, in whole or in part and if in part among maturities to be designated by The Regents (and pro rata within a maturity), on any date at a redemption price equal to the greater of:

- (1) 100% of the principal amount of the 2010 Series T Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such 2010 Series T Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2010 Series T Bonds are to be redeemed, discounted to the date on which such 2010 Series T Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described below) plus 25 basis points,

plus, in each case, accrued interest on such 2010 Series T Bonds to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular 2010 Series T Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the 2010 Series T

Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Sinking Account Redemption. The 2010 Series S Bonds maturing on May 15, 2035 are subject to redemption prior to maturity in part, by lot, at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, from mandatory sinking account payments in the following amounts, commencing on May 15, 2031 according to the following schedule:

**Schedule of Mandatory Sinking Account Payments
2010 Series S Bonds Maturing May 15, 2035**

Redemption Date (May 15)	Principal Amount
2031	\$750,000
2032	785,000
2033	825,000
2034	865,000
2035*	910,000

*Maturity

The 2010 Series S Bonds maturing on May 15, 2040 are subject to redemption prior to maturity in part, by lot, at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, from mandatory sinking account payments in the following amounts, commencing on May 15, 2036 according to the following schedule:

**Schedule of Mandatory Sinking Account Payments
2010 Series S Bonds Maturing May 15, 2040**

Redemption Date (May 15)	Principal Amount
2036	\$1,575,000
2037	1,650,000
2038	1,735,000
2039	1,820,000
2040*	1,910,000

*Maturity

The 2010 Series T Bonds maturing on May 15, 2020 are subject to redemption prior to maturity in part, pro rata, at the principal amount thereof plus accrued interest to the date fixed

for redemption, without premium, from mandatory sinking account payments in the following amounts, commencing on May 15, 2016 according to the following schedule:

**Schedule of Mandatory Sinking Account Payments
2010 Series T Bonds Maturing May 15, 2020**

Redemption Date (May 15)	Principal Amount
2016	\$490,000
2017	510,000
2018	535,000
2019	565,000
2020*	590,000

*Maturity

The 2010 Series T Bonds maturing on May 15, 2025 are subject to redemption prior to maturity in part, pro rata, at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, from mandatory sinking account payments in the following amounts, commencing on May 15, 2021 according to the following schedule:

**Schedule of Mandatory Sinking Account Payments
2010 Series T Bonds Maturing May 15, 2025**

Redemption Date (May 15)	Principal Amount
2021	\$470,000
2022	410,000
2023	235,000
2024	855,000
2025*	905,000

*Maturity

The 2010 Series T Bonds maturing on May 15, 2035 are subject to redemption prior to maturity in part, pro rata, at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, from mandatory sinking account payments in the following amounts, commencing on May 15, 2026 according to the following schedule:

**Schedule of Mandatory Sinking Account Payments
2010 Series T Bonds Maturing May 15, 2035**

Redemption Date (May 15)	Principal Amount
2026	\$340,000
2027	360,000
2028	385,000
2029	410,000
2030	435,000
2031	460,000
2032	490,000
2033	520,000
2034	550,000
2035*	585,000

*Maturity

Notice of Redemption. Notice of any redemption shall be mailed not less than 30 days nor more than 60 days prior to the date fixed for redemption to the registered owner of each 2010 Bond to be redeemed, in whole or in part, at the address shown on the registration books maintained by the Trustee. Failure to give such notice by mail or any defect in such notice to any 2010 Bondholder shall not affect the validity of any proceedings for the redemption of any other 2010 Bond.

If DTC or its nominee is the registered owner of any 2010 Bond to be redeemed, notice of redemption will be given to DTC or its nominee as the registered owner of such 2010 Bond. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner of any 2010 Bond to be redeemed shall not affect the validity of the redemption of such 2010 Bond.

Partial Redemption. Upon surrender of any 2010 Bond redeemed in part only, The Regents shall execute and the Trustee shall authenticate and deliver to the registered owner thereof, at the expense of The Regents, a new 2010 Bond or 2010 Bonds of Authorized Denominations and of the same series and maturity, equal in aggregate principal amount to the unredeemed portion of the 2010 Bond surrendered. 2010 Bonds shall be redeemed only in Authorized Denominations.

Effect of Redemption. The Indenture provides that if notice of redemption has been duly given and money for payment of the principal, premium, if any, and interest accrued to the redemption date of the 2010 Bonds (or portions thereof) called for redemption has been transferred to the Trustee, then on the redemption date designated in such notice, the 2010 Bonds so called for redemption will become due and payable and from and after the redemption date,

interest on the 2010 Bonds (or portions thereof) so called for redemption will cease to accrue and the Holders of such 2010 Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

Rescission or Cancellation of Redemption. The Indenture provides that the Trustee shall rescind any redemption by notice of rescission if directed to do so by The Regents prior to the date of redemption, and that the Trustee shall give notice of rescission by the same means as for the giving of a notice of redemption. The redemption shall be deemed canceled once the Trustee has given notice of rescission. Under the Indenture neither the rescission nor the failure of funds being made available in part or in whole on or before a redemption date shall constitute an Event of Default.

Purchase of Bonds. The Indenture provides that at any time prior to giving notice of any redemption, the Trustee shall apply amounts in the applicable Optional Redemption Account, Special Redemption Account, or Sinking Account to the purchase of 2010 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as may be directed by The Regents.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2010 Bonds. The ownership of one fully registered 2010 Bond for each maturity of each Series set forth on the cover page hereof, in the aggregate principal amount of the 2010 Bonds of such Series maturing on that date, will be registered in the name of Cede & Co., as nominee of DTC. See “APPENDIX E – BOOK-ENTRY ONLY SYSTEM” for a description of DTC and the Book-Entry Only System.

PLAN OF FINANCE

Financing for New Projects

A portion of the proceeds of the 2010 Bonds will be used to finance or refinance all or a portion of projects on two campuses of the University of California, consisting of a medical office facility and faculty housing facility (the “2010 Projects”). Pursuant to the Indenture, The Regents may use proceeds of the 2010 Bonds to finance or refinance all or a portion of additional projects authorized by The Regents after the 2010 Bonds have been issued.

Refunding Prior Obligations

The Regents will apply a portion of the proceeds of the 2010 Bonds to current refund a portion of certain series of General Revenue Bonds (the “Current Refunded Bonds”). A portion of the proceeds of the 2010 Bonds, in an amount sufficient to pay principal and interest due on the Current Refunded Bonds on May 15, 2010, will be invested in Permitted Investments and applied to pay principal and interest due on the Current Refunded Bonds on May 15, 2010.

At the time of issuance of the 2010 Bonds, the 2003 Series A Bonds, the 2003 Series B Bonds, the 2005 Series C Bonds, the 2005 Series D Bonds, the 2005 Series E Bonds, the 2005

Series F Bonds, the 2005 Series G Bonds, the 2005 Series H Bonds, the 2005 Series I Bonds, the 2007 Series J Bonds, the 2007 Series K Bonds, the 2008 Series L Bonds, the 2008 Series M Bonds, the 2008 Series N Bonds, the 2009 Series O Bonds, the 2009 Series P Bonds, the 2009 Series Q Bonds and the 2009 Series R Bonds secured by the lien of the Indenture, and additional Indebtedness secured by a Subordinate Lien on General Revenues, will remain Outstanding. See “SECURITY FOR THE BONDS – Indebtedness” and “APPENDIX A – THE UNIVERSITY OF CALIFORNIA – Indebtedness of The Regents.”

SECURITY FOR THE BONDS

Pledge; Definition of General Revenues. The Bonds are secured by a pledge of General Revenues, the proceeds of the Bonds and any other amounts held in any fund or account (excluding the Rebate Fund) established pursuant to the Indenture. As defined in the Indenture, General Revenues consist of certain operating and non-operating revenues of the University as reported in the University’s Annual Financial Report, including (i) gross student tuition and fees; (ii) facilities and administrative cost recovery from contracts and grants; (iii) net sales and service revenues from educational and auxiliary enterprise activities; (iv) other net operating revenues; (v) certain other non-operating revenues, including unrestricted investment income; and (vi) any other revenues as may be designated as General Revenues from time to time by a Certificate of The Regents delivered to the Trustee, but excluding (a) appropriations from the State of California (except as permitted under Section 28 of the State Budget Act or other legislative action); (b) moneys which are restricted as to expenditure by a granting agency or donor; (c) gross revenues of the University Medical Centers; (d) management fees resulting from the contracts for management of the United States Department of Energy Laboratories; and (e) any revenues which may be excluded from General Revenues from time to time by a Certificate of The Regents delivered to the Trustee. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT – THE INDENTURE – Definitions.”

Amount of General Revenues. The following table sets forth the approximate amount of General Revenues pledged under the Indenture as security for the Bonds for each of the indicated Fiscal Years:

**Table 2
General Revenues**

<u>Fiscal Year</u>	<u>General Revenues (dollars in billions)</u>
2004-2005	\$5.24
2005-2006	5.82
2006-2007	6.11
2007-2008	6.72
2008-2009	7.05

The amount of General Revenues in each fiscal year will change based upon various factors affecting the operations of the University, including but not limited to its enrollment, research grants and contracts, auxiliary enterprises, gifts and fundraising, investment results and certain State support for capital projects. For a discussion of the University’s past financial performance and future financial prospects, see “APPENDIX B – THE UNIVERSITY OF

CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009 – Management’s Discussion and Analysis.”

Pursuant to the Indenture, the amounts that constitute General Revenues may be changed from time to time by The Regents to include other revenues or exclude portions of the General Revenues. Any amounts that are so excluded would no longer be pledged under the Indenture as security for the Bonds.

General Revenue Covenant. Under the Indenture, so long as the Bonds are Outstanding, The Regents shall set rates, charges, and fees in each Fiscal Year so as to cause General Revenues deposited in the General Revenue Fund to be in an amount sufficient to pay the principal of and interest on the Bonds and amounts due and payable on Ancillary Obligations for the then-current Fiscal Year (the “General Revenue Covenant”).

Unless an Event of Default has occurred and is continuing, however, The Regents may withdraw and use any or all amounts deposited in the General Revenue Fund pursuant to the General Revenue Covenant at any time for any lawful purpose, including for purposes other than paying debt service on the Bonds. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT – THE INDENTURE – Flow of Funds – General Revenues.”

No Reserve Account. There is no debt service reserve account established under the Indenture.

Indebtedness

Additional Indebtedness. The Regents may issue Additional Bonds, upon certain terms and conditions set forth in the Indenture, to provide moneys for any lawful purpose of The Regents, and may issue taxable or tax-exempt, fixed or variable interest rate or other types of Additional Bonds. Bonds issued under and secured by the lien of the Indenture in the aggregate principal amount of \$5,851,685,000 were Outstanding as of March 1, 2010. See “INTRODUCTION.”

In addition, the Indenture provides that, so long as an Event of Default has not occurred and is continuing, The Regents may at any time incur any Indebtedness or other obligations payable from General Revenues, including, but not limited to, Indebtedness or other obligations secured by a Senior Lien, Parity Lien or Subordinate Lien.

Senior Lien Indebtedness. At the time of issuance of the 2010 Bonds, no Indebtedness secured by a Senior Lien will be outstanding.

Parity Lien Indebtedness. At the time of issuance of the 2010 Bonds, no Indebtedness secured by a Parity Lien will be outstanding. Bonds issued under and secured by the lien of the Indenture that will be Outstanding at the time of issuance of the 2010 Bonds are described under “- Additional Indebtedness” above.

Subordinate Lien Indebtedness. At the time of issuance of the 2010 Bonds, Indebtedness of The Regents secured by a Subordinate Lien will consist of (i) Indebtedness

outstanding under the Indenture, dated as of October 1, 2004, by and between The Regents and The Bank of New York Mellon Trust Company, N.A., as successor trustee to J.P. Morgan Trust Company, National Association, securing The Regents of the University of California Limited Project Revenue Bonds 2004 Series A, 2005 Series B, 2005 Series C and 2007 Series D, (ii) Indebtedness outstanding under the Indenture, dated as of December 1, 1991, by and between The Regents and The Bank of New York Mellon Trust Company, N.A. as successor in interest to BNY Western Trust Company as trustee, securing The Regents of the University of California Revenue Bonds (Multiple Purpose Projects) Series O through Series Q, inclusive, and (iii) Indebtedness: (a) outstanding under the Indenture, dated as of November 1, 2008, by and between The Regents and Deutsche Bank National Trust Company, securing The Regents of the University of California Commercial Paper Notes, Series A (Tax Exempt) and Series B (Taxable) and (b) outstanding under credit facilities, if any, provided by banks or other financial institutions relating to such commercial paper notes.

Other Indebtedness. At the time of issuance of the 2010 Bonds, in addition to the Outstanding Bonds and Indebtedness secured by a Subordinate Lien, The Regents will have outstanding other Indebtedness which is payable from, but not secured by a lien on, General Revenues, and Indebtedness which is payable from funds other than General Revenues. This Indebtedness of The Regents includes loans and private placements with various financial institutions; and the following Hospital Revenue Bonds: UCLA Medical Center, Series 2004A and Series 2004B; and UC San Diego Medical Center, Series 2000, and Medical Center Pooled Revenue Bonds, 2007 Series A, 2007 Series B, 2007 Series C, 2008 Series D, 2009 Series E and 2009 Series F.

On March 25, 2010, the California Infrastructure and Economic Development Bank issued revenue bonds totaling \$207,670,000 par amount which will finance the costs of Neurosciences Building 19A for the San Francisco campus. Through a capital lease, The Regents will be required to make base rent payments that equal the debt service on those bonds.

See “APPENDIX A – THE UNIVERSITY OF CALIFORNIA – Indebtedness of The Regents.”

The 2010 Bonds are limited obligations of The Regents, payable solely from General Revenues, the proceeds of the Bonds and any other amounts held in any fund or account (excluding the Rebate Fund) established pursuant to the Indenture. The 2010 Bonds and all other Bonds issued pursuant to the Indenture are entitled to the equal benefit, protection and security of the pledge and covenants and agreements of the Indenture, as hereinafter described. The Indenture permits The Regents to incur additional Indebtedness secured by a pledge and lien on General Revenues senior in priority, on a parity, or subordinate in priority with the pledge and lien of the Indenture. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT – The Indenture – Pledge.” The 2010 Bonds will not constitute a liability of or a lien upon the funds or property of the State of California or of The Regents, except to the extent of the aforementioned pledge and lien of the Indenture. The Regents has no taxing power.

ESTIMATED SOURCES AND USES OF FUNDS

The following are the estimated sources and uses of funds in connection with the 2010 Series S Bonds:

SOURCES – 2010 Series S Bonds

Principal Amount of 2010 Series S Bonds	\$75,395,000.00
Net Original Issue Premium	<u>7,068,908.00</u>
Total Sources of Funds	\$82,463,908.00

USES – 2010 Series S Bonds

Refunding of Prior Obligations	\$64,308,516.06
Project Costs	17,517,231.43
Costs of Issuance ⁽¹⁾	<u>638,160.51</u>
Total Use of Funds	\$82,463,908.00

⁽¹⁾ Includes underwriters' discount and other costs of issuance.

The following are the estimated sources and uses of funds in connection with the 2010 Series T Bonds:

SOURCES – 2010 Series T Bonds

Principal Amount of 2010 Series T Bonds	\$10,100,000.00
---	-----------------

USES – 2010 Series T Bonds

Refunding of Prior Obligations	\$2,666,068.35
Project Costs	7,332,001.32
Costs of Issuance ⁽¹⁾	<u>101,930.33</u>
Total Use of Funds	\$10,100,000.00

⁽¹⁾ Includes underwriters' discount and other costs of issuance.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to The Regents ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and

compliance with certain covenants, interest on the 2010 Series S Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is also of the opinion that interest on the 2010 Series S Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Interest on the 2010 Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the 2010 Series T Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Bonds, including whether interest on the 2010 Series S Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expects to deliver an opinion at the time of issuance of the 2010 Bonds substantially in the form set forth in Appendix D hereto.

To the extent the issue price of any maturity of the 2010 Series S Bonds is less than the amount to be paid at maturity of such 2010 Series S Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2010 Series S Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the 2010 Series S Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2010 Series S Bonds is the first price at which a substantial amount of such maturity of the 2010 Series S Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2010 Series S Bonds accrues daily over the term to maturity of such 2010 Series S Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2010 Series S Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2010 Series S Bonds. Owners of the 2010 Series S Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2010 Series S Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2010 Series S Bonds in the original offering to the public at the first price at which a substantial amount of such 2010 Series S Bonds is sold to the public.

2010 Series S Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the 2010 Series S Bonds. The Regents has made certain representations and has covenanted to comply

with certain restrictions designed to ensure that interest on the 2010 Series S Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2010 Series S Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the 2010 Series S Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2010 Series S Bonds may adversely affect the value of, or the tax status of interest on, the 2010 Series S Bonds.

Although Bond Counsel is of the opinion that interest on the 2010 Series S Bonds is excluded from gross income for federal income tax purposes and that the interest on the 2010 Bonds is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Bonds may otherwise affect a Bondholder's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the 2010 Series S Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the 2010 Series S Bonds. Prospective purchasers of the 2010 Series S Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2010 Series S Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of The Regents, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Regents has covenanted, however, to comply with the requirements of the Code.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. Bond Counsel is not obligated to defend the Bondholders regarding the tax-exempt status of the 2010 Series S Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than The Regents and their appointed counsel, including the Bondholders, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which The Regents legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2010 Series S Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2010 Series S Bonds, and may cause The Regents or the Bondholders to incur significant expense.

CIRCULAR 230 Disclosure for 2010 Series T Bonds (Taxable)

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), The Regents and our tax advisors are (or may be) required to inform you that:

- Any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;
- Any such advice is written to support the promotion or marketing of the 2010 Series T Bonds and the transactions described herein (or in such opinion or other advice); and
- Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance, sale and delivery by The Regents of the 2010 Bonds and with regard to the tax-exempt status of interest on the 2010 Bonds under existing laws are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. The form of opinion Bond Counsel proposes to render is attached as Appendix D hereto. In addition, certain legal matters will be passed upon for The Regents by its Office of General Counsel and certain legal matters will be passed upon for the Underwriters by O'Melveny & Myers LLP, counsel to the Underwriters and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel to The Regents.

LITIGATION

There is no litigation of any nature pending or, to the knowledge of the Office of General Counsel, threatened, against The Regents as of the date of this Official Statement to restrain or enjoin the issuance, sale, execution or delivery of the 2010 Bonds or in any way contesting or affecting the validity of the 2010 Bonds or the security thereof, or any proceedings of The Regents taken with respect to the issuance or sale thereof. At the time of delivery of the 2010 Bonds, The Regents will furnish a certificate to the effect that no such litigation is then pending.

At all times, including the date of this Official Statement, there are certain other claims and disputes, including those currently in litigation, that arise in the normal course of the University's activities. Such matters could, if determined adversely to The Regents, affect expenditures by The Regents, and in some cases, its revenues. University management and the Office of General Counsel are of the opinion that no pending actions are likely to have a material adverse effect on The Regents' ability to pay the principal of, premium, if any, and interest on the 2010 Bonds when due.

RATINGS

The 2010 Bonds have been assigned ratings of "Aa1" by Moody's Investors Service ("Moody's") and "AA" by Standard & Poor's Ratings Group ("S&P"). The rating reflects only

the view of the respective rating agency. An explanation of the significance of the rating must be obtained from the respective rating agency. There is no assurance that such ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of the rating agencies circumstances so warrant. A downward revision or withdrawal of any such credit ratings may have an adverse effect on the market price of the 2010 Bonds.

UNDERWRITING

Pursuant to a bond purchase contract among M.R. Beal & Company, as representative of the underwriters, The Regents and the Treasurer of the State of California (the "2010 Purchase Contract"), the underwriters have agreed to purchase the 2010 Series S Bonds at a purchase price of \$82,110,278.13 (representing the aggregate principal amount of the 2010 Series S Bonds, plus a net original issue premium of \$7,068,908.00, less an underwriters' discount of \$353,629.87) and to purchase the 2010 Series T Bonds at a purchase price of \$10,038,010.08 (representing the aggregate principal amount of the 2010 Series T Bonds, less an underwriters' discount of \$61,989.92). The public offering prices of the 2010 Bonds may be changed from time to time by the underwriters. The 2010 Purchase Contract provides that the underwriters will purchase all the 2010 Bonds if any are purchased and that the obligations to make such purchases are subject to certain terms and conditions set forth in the 2010 Purchase Contract including, among other things, the approval of certain legal matters by their counsel.

M.R. Beal & Company, an underwriter of the 2010 Bonds, has entered into an agreement with UBS Financial Services Inc. (the "Distribution Agreement") for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), M.R. Beal & Company will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the 2010 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2010 Bonds.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof and which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture and the Continuing Disclosure Agreement are available upon request from the Trustee or The Regents of the University of California, Attention: Office of External Finance, 1111 Franklin, 10th Floor, Oakland, California 94607-9828.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between The Regents and the purchasers or holders of any of the 2010 Bonds.

The execution and delivery of this Official Statement has been duly authorized by The Regents.

THE REGENTS OF THE UNIVERSITY
OF CALIFORNIA

/s/ DIANE M. GRIFFITHS
SECRETARY AND CHIEF OF STAFF

/s/ PETER J. TAYLOR
EXECUTIVE VICE PRESIDENT - CHIEF FINANCIAL
OFFICER, UNIVERSITY OF CALIFORNIA

APPENDIX A

THE UNIVERSITY OF CALIFORNIA

GENERAL

The University of California (the “University”) is the public institution of higher education designated by the State of California (the “State”) in its Master Plan for Higher Education for the training of individuals for the professions, for the awarding of doctoral degrees in all fields of human knowledge, and for the conduct of research. Since it was chartered in 1868, the University has conferred over 1,873,000 higher education degrees, as of June 30, 2009. The University’s administrative offices are located in Oakland, California.

The University is governed by a 26-member Board of Regents, 18 of whom are appointed by the Governor and approved by a majority vote of the State Senate (currently for a 12-year term), one student Regent, who is appointed by the board to a one-year term, and seven ex officio Regents who are members of the board by virtue of their elective or appointed positions. The ex officio Regents are the Governor of the State, Lieutenant Governor of the State, Speaker of the Assembly, State Superintendent of Public Instruction, President of the Alumni Associations of the University, Vice President of the Alumni Associations of the University, and the President of the University.

Classes began at Berkeley in 1873 and the University currently operates general campuses located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, Santa Barbara and Santa Cruz; a health science campus located in San Francisco; and more than 200 laboratories, research stations and institutes, affiliated schools, activity locations, and a statewide Division of Agriculture and Natural Resources. Under the Education Abroad Program, the University offers 221 programs at approximately 120 host institutions in approximately 34 countries.

The University is engaged in numerous sponsored research projects, in addition to operating one major laboratory and being a member in a joint venture that manages two other laboratories for the United States Department of Energy, which conduct broad and diverse basic and applied research in nuclear science, energy production, national defense, and in environmental and health areas. The University operates a cooperative extension program reaching into nearly every area of the State and numerous public service programs. In connection with the University’s five medical schools and other health science disciplines, the University operates five academic medical centers with a total of 3,124 licensed beds and 2,925 available beds as of June 30, 2009.

The University has a pre-eminent regular teaching faculty of approximately 10,000 members as of October 2009. Fifty-six researchers affiliated with the University have been awarded 57 Nobel Prizes, the pinnacle of achievement for groundbreaking research; 24 of the Nobel Prizes have been won since 1995. Current faculty includes 28 Nobel laureates. No U.S. public university has won more Nobel Prizes than the University. University affiliated researchers have received 58 National Medals of Science – about 10 percent of the medals presented – since Congress created the award in 1959. More than 360 University researchers have been elected to the prestigious National Academy of Sciences. The University has more

members of the National Academy of Sciences than any other college or university. Since the first MacArthur Fellowships were bestowed in 1981, approximately 62 faculty, researchers, artists and others affiliated with the University have been awarded these prestigious \$500,000 grants. Also, more Guggenheim fellowships, approximately 1,460, have been awarded to University faculty than to any other university or college.

As of October 2009, in addition to the teaching faculty, the University employed, on a full-time and part-time basis, approximately 47,000 other academic personnel and approximately 126,750 staff and management personnel.

During the year ended June 30, 2009, the University provided instruction to over 228,000 full time equivalent undergraduate and graduate students. The following table shows average enrollments (computed on the basis of full-time equivalents) of the University by campus for the general campus and for health science students across campuses for fiscal years 2004 to 2009. Further information on University enrollment can be found at <http://budget.ucop.edu/enroll.html>.

**UNIVERSITY OF CALIFORNIA
FULL-TIME EQUIVALENT ENROLLMENTS ⁽¹⁾ FOR FISCAL YEARS 2004 TO 2009**

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Berkeley	32,441	31,995	32,347	32,875	34,229	34,732
Davis	27,147	26,779	26,737	27,311	28,199	29,021
Irvine	22,284	22,188	23,276	25,586	26,924	27,763
Los Angeles	33,421	32,726	32,751	33,592	34,290	34,945
Merced		18	865	1,276	1,903	2,775
Riverside	15,408	15,311	15,445	16,349	17,238	18,028
San Diego	22,219	22,847	24,095	25,760	26,641	27,487
Santa Barbara	21,279	21,490	21,505	21,516	21,919	22,589
Santa Cruz	14,429	14,584	14,891	15,583	16,012	16,809
Total General Campus	188,628	187,938	191,912	199,848	207,355	214,149
Health Sciences ⁽²⁾	13,268	13,465	13,456	13,798	13,958	14,176
Total University	201,896	201,403	205,368	213,646	221,313	228,325

⁽¹⁾ Does not include students in self-supporting programs. Includes graduate and undergraduate students, and State supported summer enrollment.

⁽²⁾ Includes San Francisco campus enrollment.

Source: University of California Office of the President (“UCOP”), Budget Office.

INDEBTEDNESS OF THE REGENTS

The Regents of the University of California (“The Regents”) has outstanding various revenue bonds and other obligations, as listed below, maturing from 2010 through 2049. These special obligations are secured by and payable from revenues of the facilities financed, investment income, student fees, rental payments and other revenues. The Regents has established a commercial paper program in an authorized amount of up to \$2 billion. As of March 1, 2010, \$882,305,000 of commercial paper was outstanding. In addition, The Regents

had outstanding principal on loans and private placements with various financial institutions of approximately \$120 million as of March 1, 2010.

The following table lists the outstanding public indebtedness of The Regents as of March 1, 2010.

OBLIGATIONS ISSUED AND OUTSTANDING⁽¹⁾
As of March 1, 2010 (dollars in thousands)

	Amount Issued	Amount Outstanding
<u>General Revenue Bonds⁽²⁾</u>		
2003 Series A	\$ 914,270	\$ 725,260
2003 Series B	385,835	299,535
2005 Series C	252,270	244,155
2005 Series D	31,160	27,900
2005 Series E	111,610	80,160
2005 Series F	446,815	423,035
2005 Series G	308,450	306,565
2005 Series H	23,830	21,805
2005 Series I	20,540	20,540
2007 Series J	1,123,935	1,107,210
2007 Series K	241,600	231,200
2008 Series L	208,025	208,025
2008 Series M	36,845	35,345
2008 Series N	3,990	3,835
2009 Series O	732,630	732,630
2009 Series P	61,590	61,590
2009 Series Q	300,620	300,620
2009 Series R	1,022,275	1,022,275
<u>Limited Project Revenue Bonds</u>		
2004 Series A	371,590	359,060
2005 Series B	600,480	600,455
2005 Series C	15,970	5,970
2007 Series D	415,355	415,355
<u>1991 Series, Multiple Purpose Projects</u>		
Revenue Bonds Series O	346,020	6,820
Revenue Bonds Series P	19,850	2,435
Revenue Bonds Series Q	364,255	153,305
<u>Hospital Revenue Bonds:</u>		
UCLA Medical Center, Series 2004 A	165,000	60,380
UCLA Medical Center, Series 2004 B	91,165	28,775
UC San Diego Medical Center, Series 2000	69,000	44,535
<u>Medical Center Pooled Revenue Bonds</u>		
2007 Series A	441,170	441,170
2007 Series B	96,155	91,215
2007 Series C	197,030	197,030
2008 Series D	322,980	309,865
2009 Series E	94,755	94,755
2009 Series F	429,150	429,150
Total	\$10,266,215	\$9,091,960

(1) In addition, commercial paper in the amount of \$882,305,000 was outstanding.

(2) Approximately \$67 million of the proceeds of the 2010 Bonds will be applied to current refund certain series of General Revenue Bonds.

Source: UCOP, External Finance

On March 25, 2010, the California Infrastructure and Economic Development Bank issued revenue bonds totaling \$207,670,000 par amount which will finance the costs of

Neurosciences Building 19A for the San Francisco campus. Through a capital lease, The Regents will be required to make base rent payments that equal the debt service on those bonds.

The State Public Works Board of the State of California (the “SPWB”) has issued various lease revenue bonds, maturing from 2010 through 2034, for the purpose of financing or refinancing various facilities for the University. In connection with these lease revenue bonds of the SPWB, The Regents has leased the financed facilities from the SPWB pursuant to facility leases, which require The Regents to pay rental payments in amounts sufficient to pay the principal of and interest on such lease revenue bonds. Such lease rental payments are appropriated annually by the State as a line item for the University’s operating budget. The Regents has appropriated and paid in a timely manner all rental payments due pursuant to its leases with the SPWB, including during periods when adoption of the State Budget was substantially delayed. The following table sets forth the outstanding lease revenue bonds of the SPWB which were issued for the purpose of financing facilities at various campuses of the University as of March 1, 2010:

State Public Works Board of the State of California	Amount Outstanding (in 000's)
<u>Lease Revenue Bonds:</u>	
1993 Series B (Various University of California Projects)	\$18,260
2002 Series A (UCLA Replacement Hospital)	129,215
2003 Series A (UC Davis MIND Institute)	27,640
2004 Series A (UC Davis Medical Center Tower II)	14,330
2004 Series F (Various University of California Projects)	121,375
2005 Series C (Various University of California Institute Projects)	116,360
2005 Series D (Various University of California Projects)	318,785
2005 Series L (Various University of California Projects)	144,735
2006 Series E (University of California Research Project)	79,870
2008 Series A (UC Irvine Medical Center Replacement Hospital)	255,240
2008 Series B (San Francisco Moffitt and Long Hospital Seismic Upgrade)	24,785
2008 Series C (Natural Sciences Unit 2 - McGaugh Hall Expansion)	14,175
2009 Series E (Various University of California Projects)	165,725
2009 Series F (UC San Diego Medical Center – Hillcrest Seismic)	41,105
<u>Lease Revenue Refunding Bonds:</u>	
1993 Series A (Various University of California Projects)	105,815
1997 Series A (Various University of California Projects)	119,865
1997 Series B (Various University of California Projects)	13,865
1998 Series B (Various University of California Projects)	25,370
1998 Series C (Various University of California Projects)	9,710
2001 Series A (Various University of California Projects)	32,140
2007 Series A (Various University of California Projects)	166,125
2007 Series B (Various University of California Projects)	49,850
2007 Series C (Various University of California Projects)	104,090
Total Outstanding	\$2,098,430

Source: UCOP, External Finance

The Regents has never defaulted in the payment of maturing principal of or interest on any of its loans, bonds, notes, or certificates or in the payment of rental due under capital leases of its facilities.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

The Constitution of the State of California 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 as may be necessary to ensure compliance with the terms of the endowments of the University and the security of its funds and such competitive bidding procedures as may be applicable to the University by statute for the letting of construction contracts, sales of real property, and purchasing of materials, goods and services. The Regents is a board composed of both ex officio members and members appointed by the Governor and approved by the Senate.

The members of the Board of Regents and the Officers of The Regents as of March 1, 2010 are listed below. Additional information and a current list of Regents can be obtained at <http://www.universityofcalifornia.edu/regents/contact.html>.

Appointed Regents:

Jesse Bernal⁽¹⁾
Santa Barbara

Hadi Makarechian
Newport Beach

Richard C. Blum
San Francisco

George M. Marcus
Palo Alto

William De La Peña, M.D.
Montebello

Norman J. Pattiz
Culver City

Russell S. Gould
Sacramento

Bonnie Reiss
Santa Monica

Eddie Island
Santa Monica

Frederick Ruiz
Dinuba

Odessa Johnson
Modesto

Leslie Tang Schilling
San Francisco

George Kieffer
Los Angeles

Bruce D. Varner
Riverside

Sherry L. Lansing
Los Angeles

Paul Wachter
Santa Monica

Monica C. Lozano
Los Angeles

Charlene Zettel
Encinitas

⁽¹⁾ Appointed by the Board of Regents.

Ex-Officio Regents:

Arnold Schwarzenegger
Governor of California

Lieutenant Governor⁽¹⁾

John A. Pérez
Speaker of the Assembly

Jack O'Connell
State Superintendent of
Public Instruction

Ronald W. Stovitz
Alumni Regent
(President of the
Alumni Associations of the
University of California)

Yolanda Nunn Gorman
Alumni Regent
(Vice President of the
Alumni Associations of the
University of California)

Mark G. Yudof
President of the
University of California

The Officers of The Regents:

President
Arnold Schwarzenegger
Governor of California

Chairman
Russell S. Gould

Vice Chair
Sherry L. Lansing

Acting Treasurer
Marie N. Berggren

General Counsel
Charles F. Robinson

Secretary and Chief of Staff
Diane M. Griffiths

Chief Compliance and Audit Officer
Sheryl Vacca

⁽¹⁾ The Office of Lieutenant Governor is currently vacant.

FINANCIAL INFORMATION

Financial information for the University is set forth in the University's Annual Financial Report for the fiscal year ended June 30, 2009. See "APPENDIX B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009."

INVESTMENTS

As of the most recent quarter ended December 31, 2009, the approximate market values and preliminary investment returns for the six months subsequent to June 30, 2009 are as follows:

	Approximate Market Value (in 000's)	Investment Return
Short Term Investment Pool ⁽¹⁾	\$ 10,027,835	1.4%
Total Return Investment Pool	1,681,906	10.9%
General Endowment Pool	5,831,286	13.6%
University of California Retirement Plan	36,419,772	16.3%

⁽¹⁾ Also includes loans in the University's Mortgage Origination Program
Source: University of California Office of the President

For additional information concerning the investments of the University, see "APPENDIX B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009—Note 2."

BUDGETARY PROCESS

The University presents to the State a single budget for the ten-campus system ("The Regents' Budget"). For the most part, State funds for the operating budget are appropriated to the University in a lump sum, although amounts for a few programs of particular interest to the State are appropriated by line item. Capital budget funds are appropriated by project, except that funds for minor capital projects are appropriated as a lump sum. Operating funds received from the State are allocated by the President to the campuses and to the Office of the President after consultation with the Chancellors, Vice Presidents, and faculty groups. Because the processes for developing, negotiating, and allocating the operating and capital budgets are somewhat different, they are discussed separately below.

Budget Consultation: Administrators from the Office of the President meet regularly with faculty and student groups to keep them informed of budget developments and seek their advice on budget issues. Further, there is a budget discussion at the monthly meeting of the Council of Chancellors, and budget discussions at the bi-monthly meetings of the Council of Executive Vice Chancellors, at the quarterly meetings of campus Vice Chancellors for Planning and Budget, and with various other groups within the University.

The Regents' Budget: The Regents' Budget is the University's annual budget statement. It provides a description of the existing budget, including income and expenditures from all fund sources, and serves as the budget request to the State for the coming year, describing in some detail the need for additional funds. The budget is presented to the Board of Regents each year for approval.

Governor's Budget/Budget Act: The Governor's Budget is released each year around the 10th of January. The Governor's recommended budget is debated during legislative hearings each spring and in June the Legislature is required by California law to send its own recommended budget back to the Governor. At that point, the Governor may delete, but not add, funds. A two-thirds vote by the Legislature can override the Governor's veto of funds. Following the Governor's action, if any, on the Legislature's recommended budget, it becomes final as the "State Budget Act."

Negotiations with the State and Legislative Budget Hearings: Throughout the year, University staff engages in discussion of issues and priorities with staff in the Department of Finance, the Legislative Analyst's Office, and with Legislative committee staff. In February, the Legislative Analyst publishes an analysis of, and recommendations for legislative action on, the Governor's Budget. This analysis is the principal agenda for the legislative hearings, including hearings on the budget recommended for the University by the Governor. The Regents' Budget is heard separately by the Assembly and the Senate. Differences between the two houses are resolved in a conference committee, usually in mid-June, after which the budget is returned to the Governor.

Allocations to Campuses: The President allocates funds to the campuses after consultation with the Chancellors, Vice Presidents, Executive Vice Chancellors, Vice Chancellors for Planning and Budget, and faculty groups. Typically, two allocations are made each year: a preliminary and a final. The first allocates increases or decreases in State funds recommended in the Governor's Budget. This allocation is subject to revision depending on the final outcome in the State Budget Act. Final allocations are usually made in July, after the State Budget Act is signed, at which time fewer changes to the budget base are usually required.

Capital Budget: The capital budget consists of individual major projects (over \$750,000) proposed for funding along with a lump sum for minor capital projects (under \$750,000). The internal process for developing the capital budget is an interactive process, with campuses initially identifying priority projects through their own extensive internal procedures, and submitting schedules and brief descriptions of both State and non-State funded projects. After compilation and review of campus submittals by the Office of the President, discussions are held with campus representatives regarding project need, justification, priority and likelihood of funding. Revised schedules are sent to the campuses for approval or dissent. Campuses then make a second submittal in greater detail for each project. The capital portion of The Regents' Budget is prepared from these more detailed submittals. Major capital projects are approved by the State on a line-item basis; funds for minor capital projects are approved on a lump-sum basis. In addition to State funds, the University also uses gift funds, certain fees and reserves, and other funds available to The Regents for capital projects.

Budget Negotiations for Higher Education: In May 2004, the University and the California State University ("CSU") negotiated a Compact for Higher Education with the Governor's Office (the "Compact") to begin the fiscal recovery of the universities and establish long-term funding stability to enroll students, restore academic and student services programs, provide for moderate, predictable and affordable student fees, and make progress on salaries for staff and faculty. The Compact agreement is similar to the funding of partnership agreements with prior Administrations; it was intended to provide fiscal stability to the University, but also allow for future planning for enrollment, student fees, financial aid, compensation and

restoration of the academic infrastructure (libraries, technology, equipment, and deferred maintenance). The Compact is an agreement with the Governor; funding proposals made pursuant to the Compact are still deliberated each year by the Legislature through the normal budget process.

The University and CSU agreed to accept budget reductions in Fiscal Year 2004-05 to contribute to the solution for resolving the State's fiscal crisis for that fiscal year in return for the Compact that began in Fiscal Year 2005-06 and was to be effective through Fiscal Year 2010-11. This six-year agreement proposed funding for 2.5% annual enrollment growth (5,000 FTES per year for the University) and 3% increases in base funding in Fiscal Years 2005-06 and 2006-07, a 4% increase in Fiscal Year 2007-08, and 5% increases in Fiscal Years 2008-09 through 2010-11. This agreement also assumed undergraduate student fee increases of no more than 8% in the first two years of the Compact, with graduate fees increasing 10%. Following that, undergraduate student fees were to increase moderately, consistent with per capita personal income. However, if in any year the system could demonstrate that its need to maintain quality and access would require higher revenue than that assumed by the Compact, student fees could increase by up to 10% in any given year.

In Fiscal Year 2005-06, the University received a funding increase from the State of 5%, and implemented an increase in student fees for undergraduates of 8%, consistent with the Compact. In Fiscal Year 2006-07, State funding for the University rose by 8.4%, which was consistent with the Compact and included additional amounts to fund nursing and math/science teacher initiatives and to avoid a student fee increase for resident undergraduates and graduates. In Fiscal Year 2007-08, the University's funding from the State rose by 6.4%, again consistent with the Compact, and the University implemented an 8% increase in student fees. As discussed below, due to the weak fiscal condition of the State, the Compact was not funded for Fiscal Year 2008-09 or Fiscal Year 2009-10.

State Actions to Resolve the Fiscal Crisis in FY 2008-09 and FY 2009-10: The State Budget Act for Fiscal Year 2008-09 was signed by the Governor on September 23, 2008—the latest in State history. Thereafter, on-going weak economic conditions resulted in significant revenue shortfalls and the Governor declared a “fiscal emergency” and called special sessions of the Legislature to consider budget actions to address the problems. The Governor's proposed budget for Fiscal Year 2009-10, released December 31, 2008, estimated there would be a budget gap of more than \$40 billion for the 18-month period ending June 30, 2010. Following lengthy budget negotiations, on February 19, 2009, the State Legislature passed revisions to the State Budget Act for the remainder of Fiscal Year 2008-09, as well as the State Budget Act for Fiscal Year 2009-10 and related legislation, which the Governor signed on February 20, 2009 after making additional line-item vetoes, collectively, the “Special Session budget package.”

The Special Session budget package relied upon a combination of temporary and permanent measures, totaling \$41.6 billion for the remainder of FY 2008-09 and FY 2009-10. The main elements of the budget compromise included about \$14.9 billion in expenditure reductions, \$12.5 billion in revenue adjustments (primarily tax increases), \$7.9 billion in new funding for the State to be received as a result of enactment of the federal American Recovery and Reinvestment Act (“ARRA”), and \$5.4 billion in borrowing. The Governor vetoed an additional \$957 million of expenditures from the February 2009 budget bill approved by the Legislature, leaving an estimated budget reserve of \$2 billion at June 30, 2010.

Governor's May Revision to the Budget and Additional Legislative Proposals:

Following adoption of the Special Session budget package, the State's fiscal situation continued to worsen. With the continuing deterioration of the State's fiscal situation and the failure of several ballot initiatives in the special May 19, 2009 election that had been intended to help alleviate the budget shortages, the Governor proposed significant additional cuts throughout State government to address an estimated additional \$24 billion statewide shortfall (over and above the actions taken in February to address the fiscal crisis) as part of his May Revision to the budget. Following lengthy negotiations, a compromise budget package was reached by the Governor and the Legislature and was approved by the Legislature on July 24, 2009 and signed by the Governor on July 28, 2009, including the Governor's line-item vetoes of approximately \$489 million. This compromise budget package included approximately \$16 billion in program reductions statewide, and approximately \$8.2 billion in revenue accelerations and fees, significant borrowing provisions, and other technical adjustments such as fund shifts and payment of June, 2010 State payroll and health premiums in July, 2010. No new tax revenue was included in the compromise.

Impact of Special Session and July Budget Packages on University's Budget for FY 2008-09 and FY 2009-10; Student Fee Increases: For the University, reductions for FY 2008-09 included some one-time and some permanent cuts totaling \$832.0 million. The net reduction in State funding during FY 2008-09 was \$115.5 million, after accounting for one-time assistance of approximately \$716.5 million from federal economic stimulus funds. In FY 2009-10, the net reduction was \$637.1 million, when compared against the State-funded budget adopted in September 2008 for FY 2008-09 before the budget cuts began to be implemented. By way of illustration, the \$2.64 billion remaining in the University's base budget from State funds in FY 2009-10 was about 19% less than the \$3.25 billion in State funds appropriated to the University in FY 2007-08.

For the second consecutive fiscal year, the State Budget Act did not fully fund the Compact. In particular, the State Budget Act for FY 2009-10 provided no funding for enrollment growth. The University announced measures to curtail enrollment of freshmen by 2,300 students for the 2009-10 Academic Year, although this reduction was offset somewhat by an increase in transfers from California community colleges of 500 students. Even with this action, the University's enrollment remains more than 15,000 FTE over the budgeted level when the State last provided enrollment funding (2007-08). The Special Session budget package also assumed that The Regents would increase student fees by 9.3% in Fiscal Year 2009-10, which The Regents adopted at its May, 2009 board meeting.

In addition to the State funding cuts of \$637.1 million for 2009-10, the University estimates it faces cost increases of \$368 million, resulting in a budget shortfall of \$1.0 billion. Fee increases already approved for FY 2008-09 and, in May 2009, for FY 2009-10 addressed only about \$211 million of this amount. On July 15, 2009, The Regents approved a declaration of financial emergency and budget reduction actions, effective for one year (September 1, 2009 to August 31, 2010), as a result of reductions in the level of State funding for the University. To address cuts in State funds, the University implemented a furlough/salary reduction plan (\$184 million), campus and systemwide layoffs and programmatic reductions (\$343 million), and other systemwide savings including debt restructuring (\$75 million). In addition, at the November, 2009 meeting, The Regents approved an additional mid-year fee increase of 15% for

undergraduate and graduate professional students, and 2.6% for graduate academic students, to be implemented beginning January, 2010, as well as an additional increase of 15% for all students, to be implemented in summer, 2010. The mid-year fee increase effective January, 2010 will result in another \$66.1 million (net of financial aid) available for helping to fill the budget gap for FY 2009-10.

In addition, over the course of FY 2009-10, the State will be deferring some payments to the University – \$250 million due in July was deferred until October, and another \$750 million was deferred until the end of the fiscal year. Additional deferrals were also negotiated through legislation (AB 5 (8X)) that affect FY 2009-10 and future fiscal years. The University is using its taxable commercial paper program for working capital purposes to mitigate some of the impact of the cash flow deferral.

The State Budget Act also eliminated \$20 million that had been proposed by the Governor in new funding for the State's share of employer retirement contributions. The University is evaluating its options and will pursue restoration of this funding from the State. See "APPENDIX A – THE UNIVERSITY OF CALIFORNIA – RETIREMENT PLAN FUNDS." In addition to the reductions of State funds, the University faces a further gap of \$335 million related to increasing costs that have not been funded by the State (increases in student enrollments, health benefit costs, faculty merits, utility costs, etc.).

Governor's Budget Proposal for FY 2010-2011: In November 2009, The Regents approved a University budget plan that included a request to the State for 2010-11 funding increase of \$913 million. In January 2010, the Governor released his proposal for the 2010-11 budget. Seeking to close a nearly \$20 billion State deficit, the Governor proposed \$8.9 billion in cuts, with health and social services and prisons taking the largest reductions. For UC, the Governor proposed an increase of \$371 million, including restoration of \$305 million in one-time reductions for 2009-10, \$51.3 million for enrollment growth of 5,121 FTE students, and \$14.1 million for annuitant health benefit cost increases. In addition, the Governor's proposal includes additional funds for Cal Grants to cover the recently approved fee increases for University students eligible for the grant program. Notably, both the enrollment growth funding and the Cal Grant funding are tied to the Governor's request to the federal government for \$6.9 billion. If the State does not receive that federal funding, which would come mostly from the U.S. Department of Health and Human Services, funding proposed for enrollment growth and Cal Grants could be in jeopardy.

In addition to his budget proposal, in early January the Governor announced a proposal to amend the State constitution to shift money from prisons to higher education. The proposed amendment would limit the State correctional budget to no more than 7 percent of State general fund revenue and guarantee that the University of California and the California State University together would receive no less than 10 percent of State general fund revenue. This proposed funding shift would begin in the 2011-12 fiscal year and be fully realized in 2014-15. If the amendment funding formula were in place for fiscal year 2009-10, based on the California budget approved last summer, the University would have received up to \$1.7 billion more from the State; however, the University cannot predict whether such a Constitutional amendment will be placed on the ballot nor whether it would be approved by the State's voters.

As mentioned earlier, in November 2009, coincident with their approval of the University's funding request of the State, The Regents approved a 15% mid-year increase in student fees for 2009-10 and an additional 15% increase for 2010-11. When annualized, the mid-year fee increase (net of financial aid) will generate \$145.3 million. The approved 2010-11 fee increase will provide another \$184.7 million (net of financial aid) to help address the budget shortfall.

The next step in the State budget process requires the Legislature to review the Governor's proposal and approve it or offer revisions. In May, the Governor typically introduces a revised budget that could eliminate or augment the budget proposals made in January. The University is now asking legislators to support the Governor's funding plan and to look for opportunities to fully fund UC's budget request for an additional \$913 million; however, the University cannot predict the outcome of these discussions nor what the final State budget for the University for FY 2010-11 will be.

Additional budget information can be found at <http://universityofcalifornia.edu/news/budget/welcome.html>. Additional information concerning State budget matters and the State's financial condition may be found on the website of the State of California Department of Finance at <http://www.dof.ca.gov>.

EMPLOYER-EMPLOYEE RELATIONS

The Higher Education Employee Relations Act (HEERA), the law that provides for collective bargaining in higher education, became effective July 1, 1979. Currently, the University negotiates with eight unions representing thirteen systemwide bargaining units and with nine unions representing twelve local bargaining units over terms and conditions of employment for more than 70,000 of the University's approximately 160,000 employees statewide.

It is always difficult to determine with assurance the future course of employer-employee relations. Nevertheless, at the present time, The Regents does not anticipate that the future labor relations climate within the University will have a material adverse impact upon the ability of The Regents to make payment on its outstanding indebtedness.

RETIREMENT PLAN FUNDS

The Regents maintains the University of California Retirement Plan (the "Plan"), a governmental defined benefit pension plan, which provides lifetime retirement income, disability protection, death benefits, and pre-retirement survivor benefits to eligible employees of the University of California. The Plan includes four membership classifications: members with Social Security, members without Social Security, Safety members (police and firefighters), and Tier Two members.

The Regents' funding policy is to establish annual contributions as a percentage of payroll by using the entry age normal actuarial funding method. The funding policy determines recommended total contributions starting one year after the date of the actuarial valuation based on the Plan's Normal Cost adjusted by an amortization of any surplus or underfunding. University and member contributions to the Plan had generally not been required since

November 1, 1990 for most membership classifications. Member pretax contributions otherwise made to the Plan are redirected to the University of California Defined Contribution Plan on a mandatory basis.

The funding policy contributions related to campuses and medical centers in the July 1, 2009 actuarial valuation for the University's fiscal year beginning July 1, 2010 are \$1.6 billion, which represents 20.4% of covered compensation. The University plans to implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time. The Regents has authorized the initial resumption of shared employer and employee contributions to the Plan beginning in April 2010. At that time, member pretax contributions currently being redirected to the University of California Defined Contribution Plan on a mandatory basis will be directed into the Plan. Employer contributions for fiscal year 2009-10 are anticipated to be approximately \$65 million based upon an assessment rate of 4 percent of covered compensation during the last quarter of 2010. For Fiscal Year 2010-11, The Regents has authorized the continuation of the assessment rate of 4 percent of covered compensation, with an increase in such rate depending on various factors, including availability of funds, the impact of employee contributions on the competitiveness of the University's total remuneration package, and collective bargaining.

In addition, shared employer and employee contributions to the Plan at Lawrence Berkeley National Laboratory will resume at the same rates and on the same timetable as the University's campus and medical center contributions, subject to the terms of the University's contract with the U.S. Department of Energy and subject to collective bargaining, if applicable, for represented members at Lawrence Berkeley National Laboratory. Based upon a contractual agreement, the U.S. Department of Energy is also required to contribute approximately \$80 million to the Plan on behalf of Los Alamos National Laboratory and Lawrence Livermore National Laboratory retirees.

As of July 1, 2009, in the actuarial valuation effective for the fiscal year ending June 30, 2010, the Plan's independent actuary reported that the actuarial accrued liability of the Plan (calculated on an entry age normal cost basis) was approximately \$45.2 billion and the actuarial value of assets was \$42.8 billion. The Plan's net assets held in trust for pension benefits as of June 30, 2008 and June 30, 2009 were approximately \$42.0 billion and \$32.3 billion, respectively. The funded ratio of the Plan (actuarial value of assets divided by actuarial accrued liability) decreased from 103% as of July 1, 2008 to 94.8% as of July 1, 2009 primarily as a result of investment losses and the fact that no contributions were made to the Plan in FY 2008-09. Unless investment returns exceed the assumed annual rate of 7.5%, the funded ratio of the Plan will likely continue to decrease in future fiscal years, due in part to the multi-year strategy under which employer and employee contributions increase gradually over time.

For more information on the University's pension plan funds, see "APPENDIX B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009", including – "Management's Discussion and Analysis – The University of California Retirement System (UCRS)" and – "Required Supplementary Information."

RETIREE HEALTH PLAN FUNDS

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. Membership in the Plan is required to become eligible for retiree health benefits.

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. 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.

As of July 1, 2009, in the actuarial valuation effective for the fiscal year ending June 30, 2010, the Plan's independent actuary reported that the actuarial accrued liability of the Plan for retiree health benefits (calculated on an entry age normal cost basis) for campuses and medical centers was approximately \$14.5 billion and the actuarial value of assets was \$76.9 million. The Plan's net assets held in trust for retiree health benefits as of June 30, 2008 and June 30, 2009 were approximately \$50.8 million and \$74.4 million, respectively.

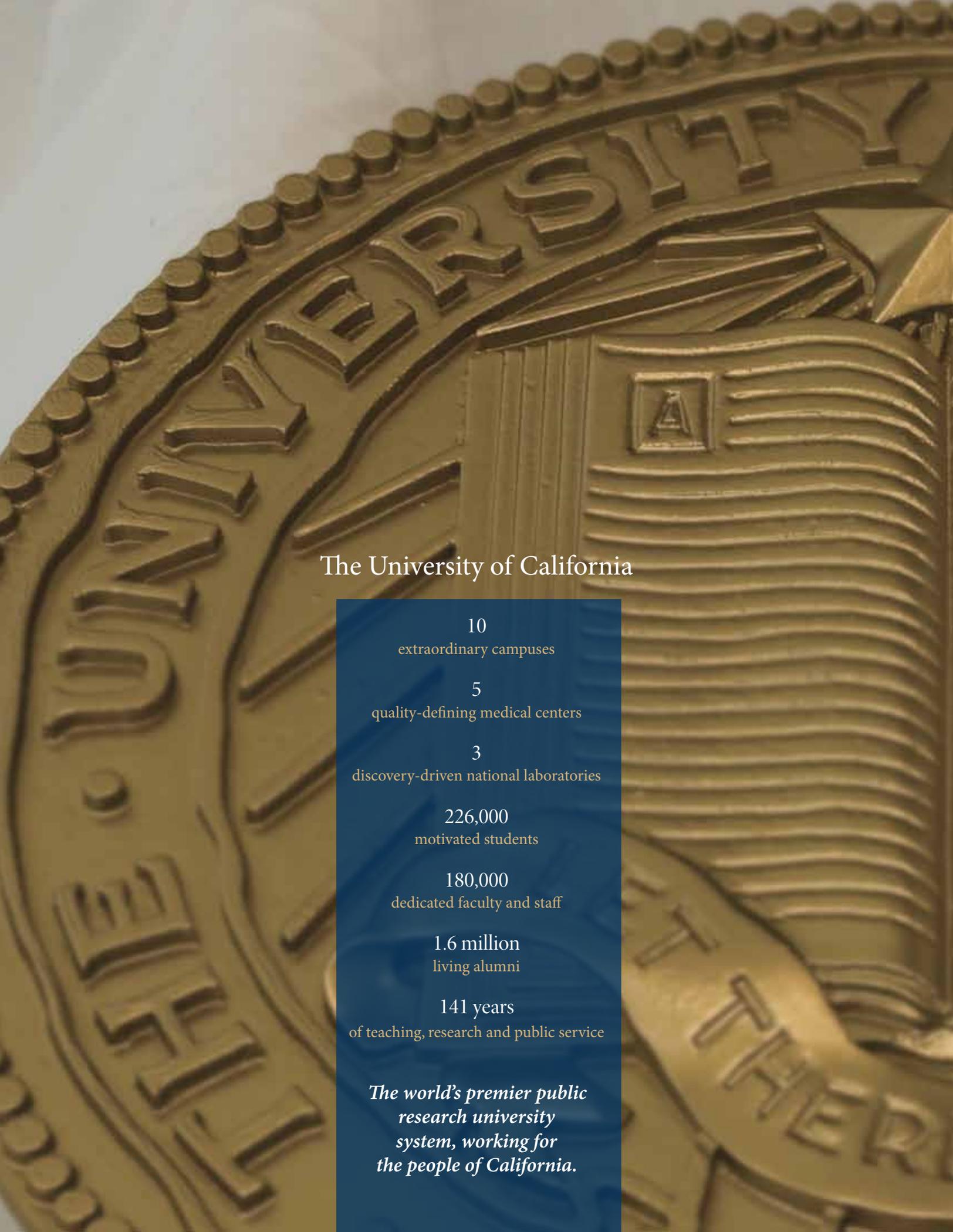
For more information on the University's pension plan funds, see "APPENDIX B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009 – Management's Discussion and Analysis – The University of California Retiree Health Benefit Trust (UCRHBT)."

APPENDIX B

**THE UNIVERSITY OF CALIFORNIA
ANNUAL FINANCIAL REPORT 2008-2009**

(THIS PAGE LEFT BLANK INTENTIONALLY)





The University of California

10

extraordinary campuses

5

quality-defining medical centers

3

discovery-driven national laboratories

226,000

motivated students

180,000

dedicated faculty and staff

1.6 million

living alumni

141 years

of teaching, research and public service

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

LETTER FROM THE PRESIDENT

As president of the University of California, it is an honor — and an adventure — to be part of all the important research, educational advances and public service that make our institution such a valuable partner to California. Whether it's a cure for a disease, a new technology or the next generation of alternative fuels and energy, UC creates an environment where innovation and creativity are encouraged at every level — from freshmen students to Nobel laureates. Each and every day great things happen here. Yet this financial report gives testimony to the challenges that threaten that greatness.



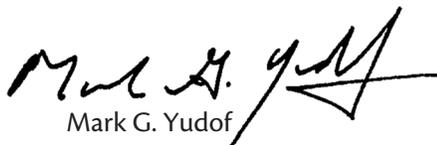
As California struggles through the worst economic downturn since the 1930s, state support for higher education has declined significantly. As a result, UC has had to take drastic actions to protect the quality of our academic programs. For the last year, we have been engaged in aggressive cost-cutting, administrative restructuring and sacrifices from every member of the University community — students, staff and faculty.

Through this period of fiscal uncertainty, we remain determined to preserve the high quality of a UC education and to keep our campuses accessible to every promising student willing to embrace the UC commitment to greatness.

Looking forward, it is clear to me that UC must forge a new vision of itself to survive in a climate of continuing financial stress. In search of that vision, we have launched the UC Commission on the Future. This commission is exploring ways to sustain UC's vital role in California's economic and cultural development against a backdrop of greatly diminished financial resources. UC Board of Regents Chairman Russell Gould and I chair the commission, drawing on experts from UC and outside the University. We are examining research strategies, new funding and educational delivery models and issues of affordability, access and enrollment capacity. I look forward to the recommendations that will come out in 2010 from this groundbreaking self-examination.

UC faces extreme challenges. I have no doubt, however, that we will emerge from these difficulties with a renewed commitment to our educational, research and public service missions. Mediocrity is not an option.

I thank you for your interest and continued support


Mark G. Yudof

FACTS IN BRIEF

	2009	2008	2007	2006	2005
STUDENTS					
Undergraduate fall enrollment	173,078	167,693	163,302	159,066	158,431
Graduate fall enrollment	52,962	52,341	50,996	50,014	49,478
Total fall enrollment	226,040	220,034	214,298	209,080	207,909
University Extension enrollment	307,781	291,631	294,976	302,388	332,842
FACULTY AND STAFF (full-time equivalents)	134,912	131,568	127,368	123,997	121,726

SUMMARY FINANCIAL INFORMATION (IN THOUSANDS OF DOLLARS, EXCEPT FOR PARTICIPANT INFORMATION)

UNIVERSITY OF CALIFORNIA

PRIMARY REVENUE SOURCES

Student tuition and fees, net ¹	\$ 2,096,817	\$ 1,921,918	\$ 1,737,597	\$ 1,662,948	\$ 1,557,828
Grants and contracts, net	4,707,584	4,514,866	4,315,595	4,144,576	3,976,549
Medical centers, educational activities and auxiliary enterprises, net	8,100,207	7,415,491	6,788,289	6,221,648	5,742,695
State educational, financing and capital appropriations	2,889,563	3,532,333	3,243,492	2,939,539	2,773,037
Private gifts, net	664,103	733,966	681,277	624,052	536,995
Capital gifts and grants, net	154,998	245,305	216,783	166,502	217,218
Department of Energy laboratories	667,983	1,048,580	2,188,475	4,231,922	4,146,261

OPERATING EXPENSES BY FUNCTION

Instruction	4,266,250	4,126,929	3,520,435	3,212,552	3,046,225
Research	3,740,604	3,495,821	3,156,541	3,035,949	2,916,534
Public service	491,121	482,487	420,760	400,844	371,209
Academic support	1,492,017	1,451,004	1,188,204	1,139,201	1,014,002
Student services	614,093	601,896	499,791	470,283	436,050
Institutional support	1,054,529	1,076,854	857,733	764,165	652,646
Operation and maintenance of plant	564,781	568,585	475,638	451,882	415,096
Student financial aid ²	458,474	425,985	406,520	363,635	369,424
Medical centers	5,225,712	4,757,958	4,085,642	3,675,271	3,423,315
Auxiliary enterprises	969,652	955,701	807,271	719,551	695,310
Depreciation and amortization	1,197,404	1,093,620	1,049,008	997,023	954,878
Department of Energy laboratories	661,863	1,039,330	2,169,750	4,197,685	4,112,077
Other	105,276	78,866	86,416	88,662	72,644

INCREASE (DECREASE) IN NET ASSETS

	(2,252,036)	(234,664)	2,004,157	1,422,406	1,183,223
--	-------------	-----------	-----------	-----------	-----------

FINANCIAL POSITION

Investments, at fair value	13,403,572	14,828,023	14,210,035	13,244,165	12,074,900
Capital assets, at net book value	21,276,915	19,593,214	18,105,332	16,665,001	15,530,305
Outstanding debt, including capital leases	10,323,945	10,024,982	9,363,730	8,876,248	7,945,285
Obligations for pension and retiree health benefits	2,445,824	1,118,754			
Net assets	19,875,663	22,127,699	22,404,180	20,400,023	18,977,617

UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS

PRIMARY REVENUE SOURCES

Private gifts, net	372,908	533,548	457,814	387,814	332,474
--------------------	---------	---------	---------	---------	---------

PRIMARY EXPENSES

Grants to campuses	444,730	527,572	451,290	416,248	343,388
--------------------	---------	---------	---------	---------	---------

INCREASE (DECREASE) IN NET ASSETS

	(640,513)	99,336	696,626	424,927	319,590
--	-----------	--------	---------	---------	---------

FINANCIAL POSITION

Investments, at fair value	3,524,622	4,158,911	4,036,489	3,363,998	2,950,090
Pledges receivable, net	401,771	420,745	450,342	429,534	426,650
Net assets	3,830,318	4,470,831	4,371,495	3,674,869	3,249,942

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.

FACTS IN BRIEF (CONTINUED)

	2009	2008	2007	2006	2005
SUMMARY FINANCIAL INFORMATION, CONTINUED (IN THOUSANDS OF DOLLARS, EXCEPT FOR PARTICIPANT INFORMATION)					
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
PLAN PARTICIPATION					
Plan membership	228,550	225,225	225,623	220,307	213,242
Retirees and beneficiaries currently receiving payments	50,051	47,575	47,682	45,442	41,477
PRIMARY REVENUE SOURCES					
Contributions	\$ 928,984	\$ 1,037,898	\$ 1,061,968	\$ 1,024,262	\$ 923,788
Interest, dividends and other investment income, net	1,506,855	1,881,884	1,860,845	1,718,593	1,505,731
Net appreciation (depreciation) in the fair value of investments	(11,324,769)	(4,979,955)	7,863,875	2,140,449	3,180,646
PRIMARY EXPENSES					
Benefit payments	1,834,005	1,893,793	1,630,244	1,375,183	1,229,569
Participant and member withdrawals	630,889	910,365	939,768	791,046	463,033
INCREASE (DECREASE) IN NET ASSETS	(11,385,008)	(6,461,435)	6,732,403	2,682,044	3,890,517
FINANCIAL POSITION					
Investments, at fair value	42,352,723	52,532,169	59,685,467	53,866,319	51,372,279
Members' defined benefit pension plan benefits	32,315,483	42,099,498	48,191,497	43,440,054	41,935,273
Participants' defined contribution plan benefits	12,483,051	14,084,044	14,453,480	12,472,520	11,295,257
ACTUARIAL INFORMATION (as of the beginning of the year)					
Actuarial value of assets	43,727,521	43,328,050	41,872,844	40,993,301	41,293,050
Actuarial accrued liability	42,467,742	41,335,935	40,207,322	37,170,862	35,034,183
UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST					
PLAN PARTICIPATION					
Plan membership	144,556	141,230			
Retirees and beneficiaries currently receiving benefits	31,473	31,247			
PRIMARY REVENUE SOURCES					
Contributions	\$ 251,010	\$ 243,144			
Interest, dividends and other investment income, net	528	691			
PRIMARY EXPENSES					
Insurance premiums	225,967	191,192			
INCREASE IN NET ASSETS	23,566	50,804			
FINANCIAL POSITION					
Investments, at fair value	38,384	19,773			
Net assets for retiree health benefits	74,370	50,804			
ACTUARIAL INFORMATION (as of the beginning of the year)					
Actuarial value of assets	51,221	Zero			
Actuarial accrued liability—campuses and medical centers	13,302,506	12,074,689			



TABLE OF CONTENTS

Management's Discussion and Analysis	6
Report of Independent Auditors	49
Audited Financial Statements	
<i>University of California</i>	
Statements of Net Assets at June 30, 2009 and 2008	50
Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2009 and 2008	51
Statements of Cash Flows for the Years Ended June 30, 2009 and 2008	52
<i>University of California Retirement System and Retiree Health Benefit Trust</i>	
Statements of Plans' and Trust's Fiduciary Net Assets at June 30, 2009 and 2008	54
Statements of Changes in Plans' and Trust's Fiduciary Net Assets for the Years Ended June 30, 2009 and 2008	55
<i>Notes to Financial Statements</i>	56
Campus Facts in Brief 2009	117
The Regents and Officers of the University of California	118

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, 2009, with selected comparative information for the years ended June 30, 2008 and 2007. 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 (2007, 2008, 2009, 2010, 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 (UCRS) and the University of California Retiree Health Benefit Trust (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' and trust's fiduciary net assets and the statements of changes in plans' and trust's fiduciary net assets, present the financial position and operating activities for UCRS and 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.

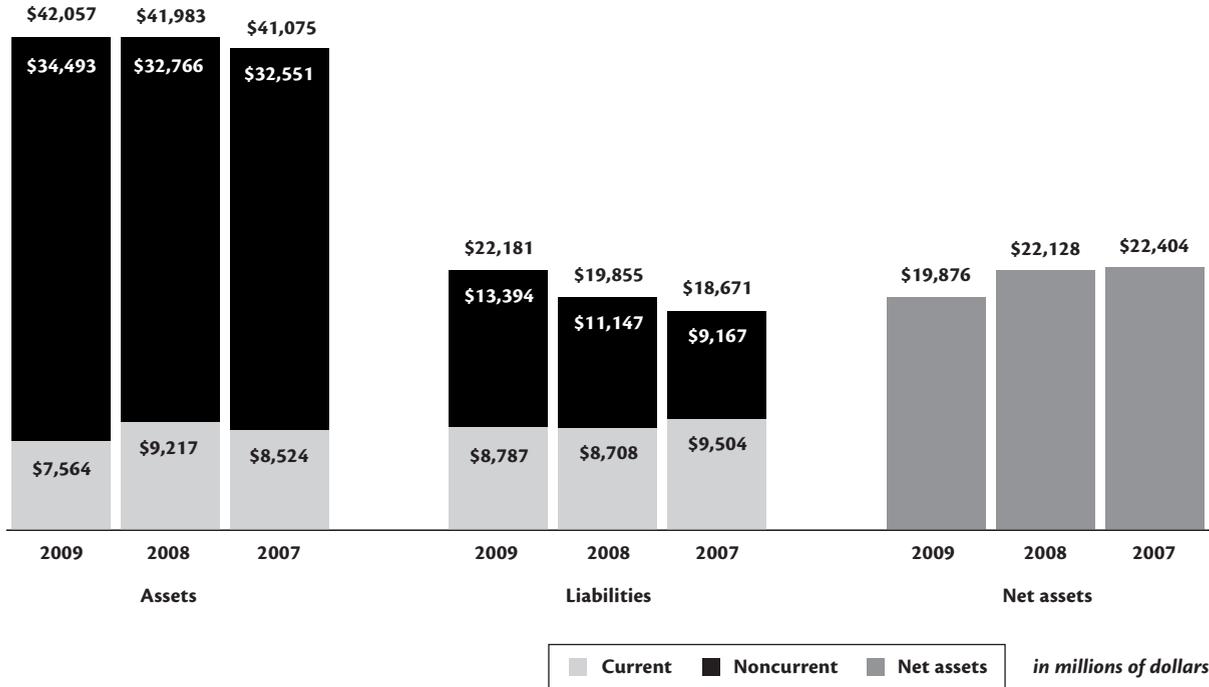
National laboratories. Under contract with the U.S. Department of Energy (DOE), the University operates and manages the Ernest Orlando Lawrence Berkeley National Laboratory (LBNL) in California. The University is a member in two separate joint ventures, Los Alamos National Security, LLC (LANS) and Lawrence 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).

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was adopted by the University during the year ended June 30, 2009. Statement No. 49 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. The costs were estimated using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Previously, pollution remediation costs were accrued only if they were both probable of occurring and could be reasonably estimated. In accordance with Statement No. 49 retrospective application is required. The cumulative effect of this accounting change to establish the initial obligation was to increase liabilities and decrease unrestricted net assets at July 1, 2007 by \$41.8 million. The effect on the University's financial statements for the year ended June 30, 2008 was to reduce the previously reported decrease in net assets in the statement of revenues, expenses and changes in net assets and reduce liabilities and increase unrestricted net assets in the statement of net assets by \$8.7 million.

The University's Financial Position



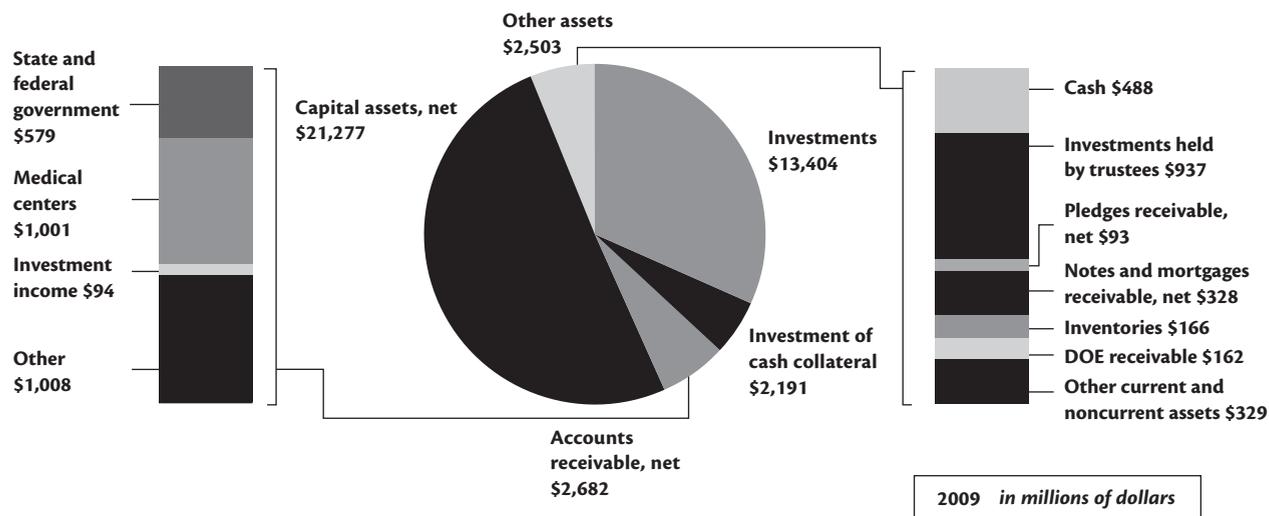
The statement of net assets presents the financial position of the University at the end of each year. It displays all of the University's assets and liabilities. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the University. At June 30, 2009, the University's assets were over \$42 billion, liabilities were over \$22 billion and net assets were nearly \$20 billion, a decrease of \$2.25 billion from 2008. Net assets decreased by \$276 million at the end of 2008 from 2007.

The major components of the assets, liabilities and net assets as of 2009, 2008 and 2007 are as follows:

(in millions of dollars)

	2009	2008	2007
ASSETS			
Investments	\$ 13,404	\$ 14,828	\$ 14,210
Investment of cash collateral	2,191	3,218	4,554
Accounts receivable, net	2,682	2,427	2,146
Capital assets, net	21,277	19,593	18,105
Other assets	2,503	1,917	2,060
Total assets	42,057	41,983	41,075
LIABILITIES			
Debt, including commercial paper	10,989	10,025	9,364
Securities lending collateral	2,199	3,234	4,554
Obligation to UCRP	69		
Obligations for retiree health benefits	2,377	1,119	
Other liabilities	6,547	5,477	4,753
Total liabilities	22,181	19,855	18,671
NET ASSETS			
Invested in capital assets, net of related debt	10,822	10,035	9,102
Restricted:			
Nonexpendable	947	952	920
Expendable	4,558	5,793	5,856
Unrestricted	3,549	5,348	6,526
Total net assets	\$19,876	\$22,128	\$22,404

The University's Assets



The University's total assets have grown to \$42.06 billion in 2009, compared to \$41.98 billion in 2008 and \$41.08 billion in 2007. Generally, over the past two years capital assets have increased while investments have declined.

Investments (in millions of dollars)

2009	\$13,404
2008	\$14,828
2007	\$14,210

The University's investments totaled \$13.40 billion at the end of 2009, \$2.04 billion classified as current assets and \$11.37 billion as noncurrent assets. Investments classified as current assets are generally fixed or variable income securities in the Short Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) with a maturity date within one year. Noncurrent investments are generally securities in TRIP, the General Endowment Pool (GEP) or other pools, in addition to fixed or variable income securities in STIP and TRIP with a maturity date beyond one year. The TRIP, established in 2009, is managed to a total return objective and is intended to supplement STIP.

The University's investments, by investment pool, are as follows:

<i>(in millions of dollars)</i>			
	2009	2008	2007
STIP	\$ 6,901	\$ 8,529	\$ 7,578
TRIP	1,445		
GEP	4,721	5,845	6,176
Other	337	454	456
University investments	\$13,404	\$14,828	\$14,210

Overall, investments decreased by \$1.42 billion in 2009. Investments in STIP decreased by \$1.63 billion, generally resulting from \$1.52 billion exchanged into TRIP and \$446 million of distributions to campuses and other routine timing of cash collections and payments. The decrease in STIP was partially offset by \$246 million of STIP investment income and \$90 million of net appreciation in the fair value of investments. After the initial \$1.52 billion exchange from STIP into TRIP in August 2008, investment activity in TRIP included \$68 million of investment income, \$43 million of which was distributed to participants and \$25 million reinvested in the portfolio, and \$90 million of net depreciation in the fair value of investments. Investments in GEP and other securities declined by \$1.24 billion, generally as a result of \$1.27 billion of net depreciation in the fair value of investments and \$215 million of annual income distributions to be used for operating purposes in 2010. The decrease in GEP and other securities was partially offset by \$152 million of investment income and new permanent endowments of \$11 million.

Investments in 2008 of \$14.83 billion grew from \$14.21 billion in 2007, an increase of \$618 million. Investments in 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 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.

The total investment return based upon unit value for GEP, representing the combined income plus net appreciation or depreciation in the fair value of investments, during 2009 and 2008 was (18.2) percent and (1.5) percent, respectively. The total investment return for TRIP since its inception in August of 2008 was (1.6) percent. The investment return for STIP distributed to participants during 2009 and 2008 was 3.6 percent and 4.7 percent, respectively.

The financial markets, both domestically and internationally, have been volatile in recent times and have affected the valuation of investments. The Regents of the University of California (The Regents) 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 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 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 UCRS and lent to borrowers are allocated to each entity on the basis of their proportional ownership.

At the end of 2009 and 2008, the investment of cash collateral decreased by \$1.03 billion and \$1.34 billion, respectively, in response to decreased demand from borrowers for certain classes of fixed income securities, decreased availability of certain of the University's equity securities resulting from asset allocation changes and decline in market value.

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 \$255 million in 2009. Federal and state government receivables decreased by \$40 million. Receivables increased for state capital appropriations (\$20 million), state educational appropriations (\$11 million) and state grants and contracts (\$8 million) and decreased for federal grants and contracts (\$66 million) and for pending reimbursements from the state for various construction projects (\$13 million). Medical center receivables grew by \$55 million corresponding to growth in patient care, as in the past, although slightly tempered by increased contractual allowances and uncollectible accounts. Investment income receivables increased by \$6 million. Various other receivables collectively grew by \$234 million primarily due to the timing of clearing trades upon the sale of investments (\$304 million), partially offset by lower receivables for private and local grants and contracts (\$25 million) and securities litigation (\$35 million).

In 2008, accounts receivable increased by \$281 million from 2007. 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).

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 \$1.68 billion to \$21.28 billion in 2009 and by \$1.49 billion to \$19.59 billion in 2008.

Capital asset activity consists of the following:

(in millions of dollars)

	2009	2008
Capital expenditures:		
Land and infrastructure	\$ 65	\$ 80
Buildings and improvements	2,288	2,720
Equipment	519	491
Libraries and special collections	163	154
Construction in progress, net	(126)	(836)
Capital expenditures	2,909	2,609
Depreciation and amortization expense	(1,197)	(1,094)
Asset disposals, net	(28)	(27)
Increase in capital assets, net	\$1,684	\$1,488

Capital spending continues at a brisk pace in order to provide the facilities necessary to support the University's mission 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 11.5 percent in 2009 from 2008 levels. At the end of 2009, the cost of projects under construction decreased by \$126 million. Construction in progress at the end of the year was \$2.87 billion, including \$1.63 billion for campus projects, \$1.16 billion for health care facilities and \$81 million for a third-party housing project.

Capital spending increased in 2008 by 2.8 percent and increased in 2007 by 17.5 percent. Construction in progress was \$3.0 billion at the end of 2008 and \$3.84 billion at the end of 2007.

Accumulated depreciation and amortization was \$13.41 billion in 2009, \$12.50 billion in 2008 and \$11.71 billion in 2007. Depreciation and amortization expense was \$1.20 billion for 2009, \$1.09 billion for 2008 and \$1.05 billion for 2007. Disposals in both years generally were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets (in millions of dollars)

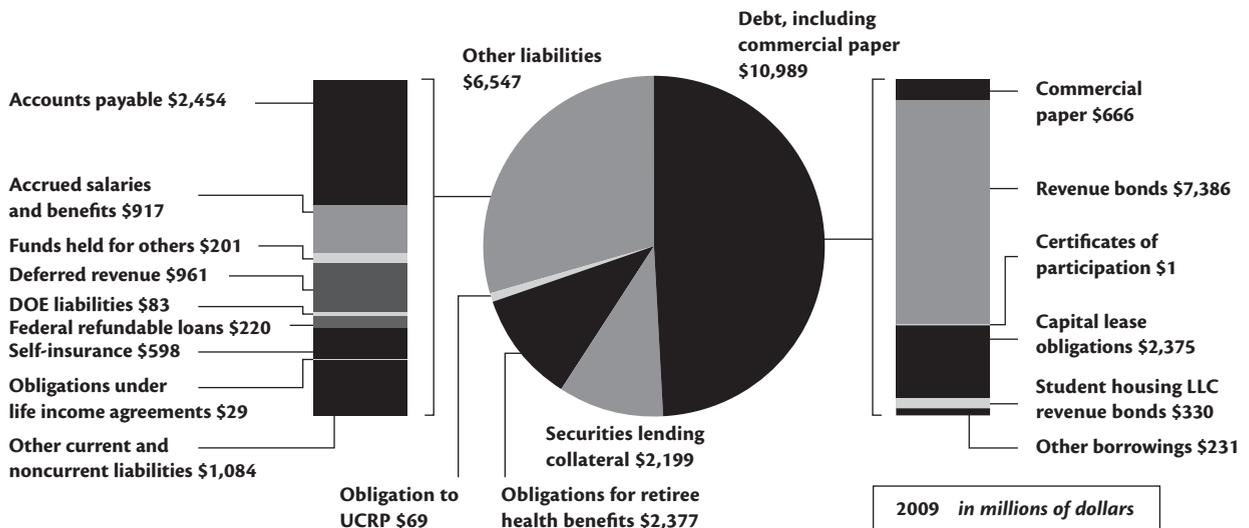


Other assets, including cash, investments held by trustees, pledges receivable, notes and mortgages receivable, inventories and a receivable from the DOE increased by \$586 million in 2009.

Cash awaiting investment in STIP increased by \$380 million in 2009 largely as a result of a \$345 million educational appropriation received by the University from the state of California on June 30. The deposit was not transferred into STIP at year end. Investments held by trustees grew at the end of 2009 by \$147 million. Trustee-held investments associated with self-insurance programs were \$20 million more in 2009 than in 2008. Trustee-held investments associated with the proceeds from long-term debt to be used to finance capital projects under construction grew by \$127 million, largely attributable to a third-party housing project financed by Student Housing LLC Revenue bonds. Net collections of pledges were \$13 million. Overall receivables from the DOE rose by \$48 million consisting of the DOE's share of the obligation for retiree health benefits (\$35 million) and vendor and employee-related operating costs at LBNL (\$13 million). There were moderate increases in certain other areas, such as notes and mortgages receivable (\$9 million), inventories (\$8 million) and various other assets (\$7 million).

In 2008, other assets decreased by \$143 million. Cash awaiting investment in 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 University of California Retirement Plan (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).

The University's Liabilities



The University's liabilities grew to \$22.18 billion in 2009, compared to \$19.86 billion in 2008 and \$18.67 billion in 2007, 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)

2009	\$10,989
2008	\$10,025
2007	\$9,364

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 \$666 million of commercial paper outstanding at the end of 2009 compared to \$550 million at the end of 2008 and 2007, grew to \$10.99 billion at the end of 2009, compared to \$10.02 billion at the end of 2008 and \$9.36 billion at the end of 2007.

Commercial paper is classified as a current liability. The current portion of long-term debt, excluding commercial paper, decreased to \$467 million in 2009 from \$546 million in 2008, primarily from payment of \$102 million 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 2009, the current portion of long-term debt does not include any interim loans from the state.

Outstanding debt increased by \$964 million in 2009 and \$661 million in 2008. A summary of the activity follows:

(in millions of dollars)

	2009	2008
ADDITIONS TO OUTSTANDING DEBT		
General Revenue Bonds	\$ 794	\$ 249
Limited Project Revenue Bonds		415
Medical Center Pooled Revenue Bonds		520
Capital leases	282	361
Other borrowings	103	330
Student Housing LLC Revenue Bonds	221	
Commercial Paper	116	
Bond premium, net	22	31
Additions to outstanding debt	1,538	1,906
REDUCTIONS TO OUTSTANDING DEBT		
Refinancing and prepayments	(210)	(870)
Scheduled principal payments	(329)	(286)
Payments on other borrowings	(34)	(74)
Other, including deferred financing costs, net	(1)	(15)
Reductions to outstanding debt	(574)	(1,245)
Net increase in outstanding debt	\$ 964	\$ 661

During 2009, additions to outstanding debt totaled \$1.54 billion, including net bond premiums of \$22 million.

General Revenue Bonds totaling \$794 million with a weighted average interest rate of 5.2 percent were issued in March 2009 to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of \$22 million, were to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds. Proceeds were also used to refund \$46 million of outstanding Multiple Purpose Projects Revenue Bonds, \$15 million of Research Facilities Revenue Bonds, and \$1 million of certificates of participation.

The University entered into a lease-purchase agreement with the state in April 2009, recorded as a capital lease, totaling \$207 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 2009 for equipment totaled \$76 million.

Other newly originated borrowings in 2009 totaled \$103 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.

In prior years, the University entered into ground leases with a legally separate, non-profit corporation that develops and owns student housing projects and related amenities on a University campus through the use of a limited liability corporation (LLC). Under GASB requirements, the financial position and operating results of this legally separate organization are incorporated into the University's financial reporting entity. In 2009, the LLC, through its conduit issuer, issued additional Student Housing LLC Revenue Bonds totaling \$221 million. Proceeds are available to finance the construction of a new student housing project and related amenities.

In July 2008, The Regents authorized an increase in the University's commercial paper program from \$550 million to \$2 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 outstanding at the end of 2009 increased by \$116 million.

Reductions to outstanding debt in 2009 were \$574 million, consisting of \$210 million for one-time principal payments for the refinancing or refunding of previously outstanding revenue bonds and certificates of participation (\$62 million) and payments on interim loans from the state as lease revenue bonds were sold (\$148 million); \$329 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.

In October 2008, the University terminated its existing interest rate swap agreement with Lehman Brothers Special Financing Inc. entered into in connection with Medical Center Pooled Revenue Bonds with a notional amount of \$190 million and substituted a new interest rate swap agreement with identical economic terms with a new counterparty. In connection with the swap termination, the University received \$31 million from the new counterparty and made a termination payment of \$25 million to Lehman Brothers Special Financing Inc. These payments were recorded as deferred costs of financing and will be amortized as interest expense over the term of the bonds.

The University's counterparty in the interest rate swap agreement entered into in connection with other Medical Center Pooled Revenue Bonds with a notional amount of \$91 million is Merrill Lynch Capital Services, Inc. In January 2009, Bank of America Corporation completed its acquisition of Merrill Lynch & Co.

Subsequent to 2009, General Revenue Bonds totaling \$1.32 billion, \$1.02 billion of taxable "Build America Bonds" and \$301 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of \$20 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds.

The University's General Revenue Bond ratings are currently affirmed at Aa1 with a stable 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 stable outlook by Moody's Investors Service and AA- by Standard & Poor's with a stable outlook.

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 \$11 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 state of California, through state financing appropriations, provided \$161 million and \$164 million in 2009 and 2008, 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 \$1.03 billion in 2009 and by \$1.32 billion in 2008. As previously discussed, the amount of the securities lending collateral liability fluctuates directly with securities lending opportunities and the investment of cash collateral.

Obligation to UCRP *(in millions of dollars)*



The University has financial responsibility for the campuses' and medical centers' obligation to UCRP for pension benefits associated with its defined benefit plan. LBNL participates in the University's defined benefit pension plan, although the DOE has an ongoing financial responsibility to reimburse the University for LBNL's share of the obligation to UCRP. In addition, under certain circumstances the University makes contributions to UCRP on behalf of LANL and LLNL retirees based upon a contractual arrangement with the DOE, and is reimbursed by the DOE.

The University's obligation to UCRP is based upon an actuarial determination of the annual pension benefit expense. Campus and medical center contributions during the year toward pension benefits, at rates determined by the University, reduce their share of the obligation to UCRP. Contributions from the DOE to the University during the year reduce the DOE's share of the obligation to UCRP. However, during 2009 and 2008 there were no required employer or employee contributions other than for service credit buybacks.

Obligations to UCRP for pension benefits attributable to campuses and medical centers and the DOE laboratories are as follows:

(in millions of dollars)

	2009	2008	2007
Campuses and medical centers	\$ 69	\$ -	\$ -
DOE laboratories	-	-	-
Obligation to UCRP	\$69	\$-	\$-

The University did not have any obligations to UCRP for pension benefits prior to 2009.

A summary of the activity that resulted in the obligation to UCRP follows:

(in millions of dollars)

	2009		2008		2007	
	CAMPUSES AND MEDICAL CENTERS	DOE LABORATORIES	CAMPUSES AND MEDICAL CENTERS	DOE LABORATORIES	CAMPUSES AND MEDICAL CENTERS	DOE LABORATORIES
UCRP benefits expense	\$ 69	\$ -	\$ 3	\$ -	\$ 6	\$ 18
Contributions	-	-	(3)	-	(6)	(18)
Increase in obligation to UCRP	\$69	\$-	\$ -	\$-	\$ -	\$ -

Based upon the latest actuarial valuation as of the beginning of 2009, 2008 and 2007, the actuarial accrued liability for campuses and medical centers and the DOE laboratories is as follows:

(in millions of dollars)

	2009	2008	2007
Campuses and medical centers	\$ 34,341	\$ 31,918	\$ 29,729
DOE laboratories	8,127	9,418	10,479
Total actuarial accrued liability	\$42,468	\$41,336	\$40,208

The actuarial accrued liability for the DOE laboratories for 2008 and 2009 incorporates the effect of the LANL and LLNL contract terminations.

The actuarial value of UCRP's assets for campuses and medical centers and the DOE laboratories at the beginning of 2009 and 2008 were \$43.73 billion and \$43.33 billion, respectively. As a result of the performance of the financial markets in 2009, the actuarial value of UCRP's assets for campuses and medical centers and the DOE laboratories based upon the valuation prepared as of July 1, 2009 for use in 2010 is expected to decline to approximately \$42.70 billion. UCRP's net assets held in trust, at market value, at the end of 2009 and 2008 were \$32.26 billion and \$42.02 billion, respectively.

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

2009	[REDACTED]	\$2,377
2008	[REDACTED]	\$1,119

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. The University funds the retiree health expense for campuses and medical centers through UCRHBT based upon a projection of benefits on a pay-as-you-go basis. 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)

	2009	2008
Campuses and medical centers	\$ 2,311	\$ 1,088
LBNL	66	31
Obligations for retiree health benefits	\$2,377	\$1,119

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

(in millions of dollars)

	2009		2008	
	CAMPUSES AND MEDICAL CENTERS	LBNL	CAMPUSES AND MEDICAL CENTERS	LBNL
Retiree health benefit expense	\$ 1,502	\$ 49	\$ 1,356	\$ 44
Contributions, including implicit subsidy	(279)	(14)	(268)	(13)
Increase in obligation for retiree health benefits	\$1,223	\$ 35	\$1,088	\$ 31

During 2009 and 2008, the University recorded revenue and a receivable from the DOE of \$35 million and \$31 million, respectively, for LBNL's share of the increase in obligations for retiree health benefits.

Based upon the latest actuarial valuation as of the beginning of 2009 and 2008, the actuarial accrued liability for campuses and medical centers and LBNL is as follows:

(in millions of dollars)

	2009	2008
Campuses and medical centers	\$ 13,302	\$ 12,074
LBNL	498	460
Total actuarial accrued liability	\$13,800	\$12,534

The actuarial value of UCRHBT's assets at the beginning of 2009 and 2008 were \$51 million and zero, respectively. The UCRHBT's net assets held in trust, at market value, at the end of 2009 and 2008 were \$74 million and \$51 million, respectively.

At the end of 2009 and 2008, the University has a receivable from the DOE of \$66 million and \$31 million, respectively, 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)

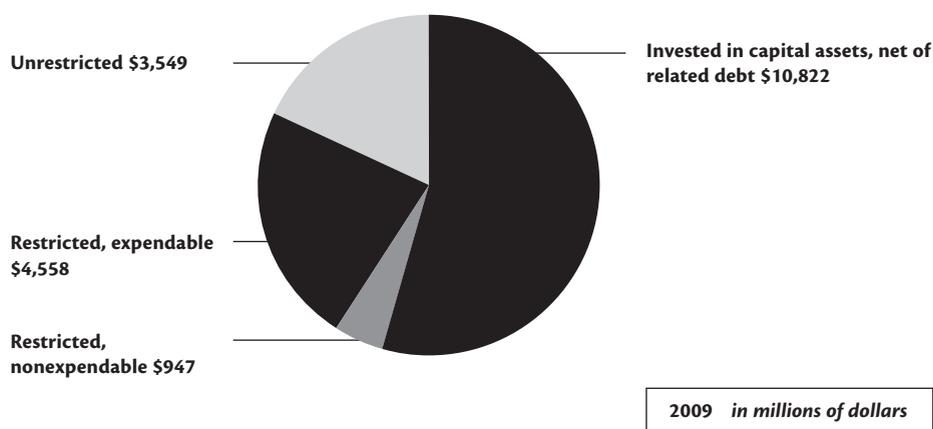
2009		\$6,547
2008		\$5,477
2007		\$4,753

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.

In 2009, other liabilities rose by \$1.07 billion largely attributable to an amount owed to the state and the timing of investment securities trades. Subsequent to year end, the state of California finalized their State Budget Act that required reversion to the state of a portion of the University's 2009 state educational appropriations. As a result, accounts payable includes a liability to the state totaling \$795 million, primarily \$715 million of state educational appropriation reversions. In addition, securities purchases to be settled after year-end grew by \$384 million. Funds held for others declined by \$69 million with the withdrawal of certain amounts by LLNL and the net depreciation in the fair value of investments. Year-to-year changes in other liabilities were less significant.

Other liabilities grew by \$724 million in 2008, generally as a result of increases in accrued salaries of \$435 million due to the timing of the payment of the July 1 payroll; deferred revenue related to grants and contracts of \$215 million; accounts payable of \$76 million, self-insurance liabilities of \$57 million; and \$104 million of other liabilities, primarily pollution remediation, 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.

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 \$19.88 billion in 2009, compared to \$22.13 billion in 2008 and \$22.40 billion in 2007. 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 \$10.82 billion in 2009, compared to \$10.03 billion in 2008 and \$9.10 billion in 2007. 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 certain planned giving arrangements. In 2009, new permanent endowments of \$11 million were offset by the unrealized depreciation on investments. Substantially all of the increase in 2008 was from new permanent endowment gifts.

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 2009, net unrealized depreciation in the fair value of investments related to endowments and funds functioning as endowments totaled \$1.01 billion. In addition, restricted expendable net assets declined in areas such as support received for capital projects (\$101 million) and endowments and funds functioning as endowments, generally a result of distributions for operating purposes. In 2008, net unrealized depreciation in the fair value of investments resulted in a \$268 million decline in the value of endowments and funds functioning as endowments, although funds functioning as endowments and annuity and life income funds from new support grew by \$77 million; and gifts and grants grew by \$63 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 unfunded retiree health benefit costs totaling \$1.22 billion and \$1.09 billion in 2009 and 2008, respectively, along with the \$715 million reduction in the University's state educational appropriations in June 2009. 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 \$1.08 billion and \$1.24 billion in 2009 and 2008, 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.

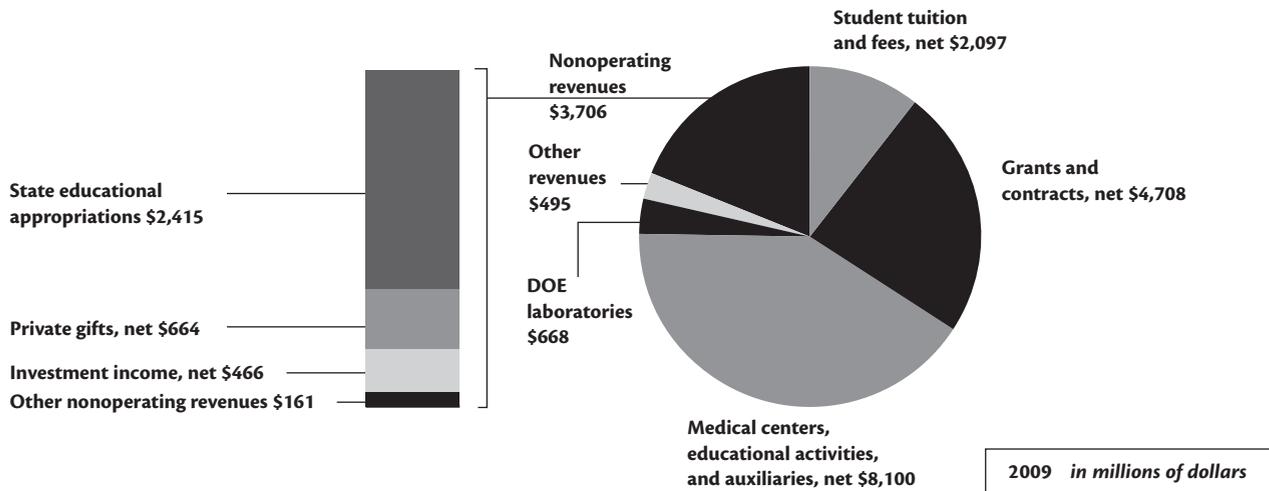
A summarized comparison of the operating results for 2009, 2008 and 2007, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

(in millions of dollars)

	2009			2008			2007		
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL
REVENUES									
Student tuition and fees, net	\$ 2,097		\$ 2,097	\$ 1,922		\$ 1,922	\$ 1,738		\$ 1,738
State educational appropriations		\$ 2,415	2,415		\$ 2,975	2,975		\$ 2,793	2,793
Grants and contracts, net	4,708		4,708	4,515		4,515	4,316		4,316
Medical centers, educational activities and auxiliary enterprises, net	8,100		8,100	7,415		7,415	6,788		6,788
Department of Energy laboratories	668		668	1,049		1,049	2,188		2,188
Private gifts, net		664	664		734	734		681	681
Investment income, net		466	466		532	532		508	508
Other revenues	495	161	656	558	164	722	435	157	592
Revenues supporting core activities	16,068	3,706	19,774	15,459	4,405	19,864	15,465	4,139	19,604
EXPENSES									
Salaries and benefits	13,212		13,212	12,401		12,401	10,313		10,313
Scholarships and fellowships	451		451	428		428	401		401
Utilities	310		310	298		298	287		287
Supplies and materials	2,210		2,210	2,102		2,102	1,910		1,910
Depreciation and amortization	1,198		1,198	1,094		1,094	1,049		1,049
Department of Energy laboratories	662		662	1,039		1,039	2,170		2,170
Interest expense		356	356		400	400		385	385
Other expenses	2,799	29	2,828	2,793	25	2,818	2,594	(11)	2,583
Expenses associated with core activities	20,842	385	21,227	20,155	425	20,580	18,724	374	19,098
Income (loss) from core activities	<u>\$(4,774)</u>	<u>\$3,321</u>	<u>(1,453)</u>	<u>\$(4,696)</u>	<u>\$3,980</u>	<u>(716)</u>	<u>\$(3,259)</u>	<u>\$3,765</u>	<u>506</u>
OTHER NONOPERATING ACTIVITIES									
Net (depreciation) appreciation in fair value of investments			(1,278)			(192)			949
Income (loss) before other changes in net assets			(2,731)			(908)			1,455
OTHER CHANGES IN NET ASSETS									
State capital appropriations			313			394			293
Capital gifts and grants, net			155			245			217
Permanent endowments			11			35			39
Increase (decrease) in net assets			(2,252)			(234)			2,004
NET ASSETS									
Beginning of year			22,128			22,404			20,400
Effect of adoption of GASB Statement No. 49						(42)			
Beginning of year, as restated						22,362			
End of year			\$19,876			\$22,128			\$22,404

Revenues Supporting Core Activities

Categories of both operating and nonoperating revenue that supported the University's core activities in 2009 are as follows:



Revenues to support the University's core activities, including those classified as nonoperating revenues, were \$19.77 billion, \$19.86 billion and \$19.60 billion in 2009, 2008 and 2007, respectively. These diversified sources of revenue decreased in 2009 by \$90 million. Revenues increased in 2008 by \$260 million.

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 \$175 million and \$184 million in 2009 and 2008, respectively. Scholarship allowances were \$566 million in 2009, \$507 million in 2008 and \$461 million in 2007. 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 2009, enrollment grew by 2.7 percent. Resident undergraduate and graduate student fees increased by 7.4 percent. Professional school fee increases varied by discipline, although most degree program fees rose substantially. In addition to the resident student fees, nonresident undergraduate and graduate students pay tuition. Tuition increased by 5 percent for both nonresident undergraduate and graduate students.

In 2008, enrollment also 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. Tuition increased by 5 percent for nonresident 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 student tuition increased by nearly 5 percent.

State educational appropriations *(in millions of dollars)*



Educational appropriations from the state of California of \$2.42 billion decreased in 2009 by \$560 million. The decline in educational appropriations is a direct result of the particularly weak economic conditions in California. State resources for enrollment growth, faculty and staff increases, and other inflationary cost increases were not available, leading to an increase in student tuition and fees. After declining to \$2.46 billion in 2005, state educational appropriations gradually increased in prior years to \$2.57 billion in 2006, \$2.79 billion in 2007 and \$2.98 billion in 2008.

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



Revenue from federal, state, private and local government grants and contracts—including an overall facilities and administration cost recovery of \$825 million, \$779 million and \$743 million in 2009, 2008 and 2007, respectively—increased in both 2009 and 2008 as follows:

(in millions of dollars)

	2009	2008	2007
Federal	\$ 2,983	\$ 2,911	\$ 2,881
State	509	492	449
Private	1,017	912	804
Local	199	200	182
Grants and contracts net revenue	\$4,708	\$4,515	\$4,316

In 2009, federal grants and contracts revenue, including the federal facilities and administration cost recovery of \$622 million, grew by \$72 million, or 2.5 percent. This revenue represents support from a variety of federal agencies as indicated below:

(in millions of dollars)

	2009	2008	2007
Department of Health and Human Services	\$ 1,728	\$ 1,689	\$ 1,682
National Science Foundation	421	420	422
Department of Education	304	265	240
Department of Defense	197	174	164
National Aeronautics and Space Administration	86	82	84
Department of Energy (excluding national laboratories)	77	75	76
Other federal agencies	170	206	213
Federal grants and contracts net revenue	\$2,983	\$2,911	\$2,881

State grants and contracts revenue was up by \$17 million, or 3.5 percent. Although revenue from private grants and contracts at the campuses can be volatile from year to year, overall it rose by \$105 million (11.5 percent), due primarily to a growing number of awards. Local government grants and contracts revenue declined by \$1 million.

In 2008, overall revenue from federal, state, private and local government grants and contracts increased by \$199 million, or 4.6 percent. Federal grants and contracts revenue grew by \$30 million, or 1.0 percent; state grants and contracts revenue increased by \$43 million, or 9.6 percent; private grants and contracts revenue grew by \$108 million, or 13.4 percent, and local government grants and contracts revenue grew by \$18 million, or 9.9 percent.

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



Revenue from medical centers, educational activities and auxiliary enterprises increased by \$685 million, or 9.2 percent, in 2009. In 2008, these revenues increased \$627 million, or 9.2 percent, from 2007. Revenues for each activity are as follows:

(in millions of dollars)

	2009	2008	2007
Medical centers, net	\$ 5,496	\$ 4,917	\$ 4,526
Educational activities, net	1,460	1,376	1,250
Auxiliary enterprises, net	1,144	1,122	1,012
Medical centers, educational activities and auxiliary enterprises revenues, net	\$8,100	\$7,415	\$6,788

Medical center revenue, net of allowances for uncollectible amounts, increased by \$579 million and \$391 million in 2009 and 2008, 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 0.7 percent and 1.6 percent increase in patient days for 2009 and 2008, respectively; also outpatient visits grew by 0.5 percent and 4.3 percent for 2009 and 2008, respectively).

Revenue from educational activities, primarily physicians' professional fees, net of allowances for doubtful accounts, grew by \$84 million in 2009, or 6.1 percent, and by \$126 million, or 10.1 percent, in 2008 and is generally associated with an expanded patient base and higher rates.

Revenue from auxiliary enterprises, net of scholarship allowances, grew by \$22 million in 2009, or 2.0 percent, and by \$110 million in 2008, or 10.9 percent, generally as a result of fee increases to support new and remodeled facilities in both years and student demand for additional room capacity in new residence halls in 2008. Scholarship allowances, substantially all for housing expenses, were \$142 million in 2009, \$127 million in 2008 and \$119 million in 2007.

DOE laboratories (in millions of dollars)



The national laboratories operate on federally financed budgets. Revenue in 2009, 2008 and 2007 is as follows:

(in millions of dollars)

	2009	2008	2007
Lawrence Berkeley National Laboratory	\$ 619	\$ 546	\$ 518
Lawrence Livermore National Laboratory		447	1,611
DOE revenue related to pension benefits			17
DOE revenue related to retiree health benefits	49	56	42
DOE laboratories revenue	\$668	\$1,049	\$2,188

DOE laboratories' revenues decreased by \$381 million in 2009 and declined by \$1.14 billion in 2008.

At LBNL, revenue in 2009 increased across all the laboratory's divisions, most notably in Computer Science (\$17 million), Physical Bioscience (\$12 million) and Environmental Energy (\$7 million). In 2008, revenue increased in Physical Sciences 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.

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.

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, decreased by \$70 million in 2009. Grants from the campus foundations totaling \$445 million, recorded as private gifts by the University, decreased by \$83 million, although other private sources were up by \$13 million. Until 2009, gifts received from the campus foundations had generally increased. Private gifts in 2008 of \$734 million were substantially above the \$681 million in 2007.

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 \$830 million in 2009, \$1.01 billion in 2008 and \$937 million in 2007.

Investment income, net (in millions of dollars)



Investment income, principally consisting of \$234 million from STIP, \$66 million from TRIP and \$138 million from endowments invested in GEP, decreased in 2009 by \$66 million. Investment income from STIP declined by \$110 million in 2009, partially as a result of \$1.52 billion of STIP investments exchanged in August 2008 into the new TRIP, and grew by \$4 million in 2008. The STIP return distributed to participants was 3.6 percent in 2009 and 4.7 percent in 2008. TRIP income for the year was \$66 million. Endowment income dropped by \$21 million in 2009 and by \$3 million in 2008. A reduction in interest rates during the year resulted in lower relative levels of both gross income and rebates.

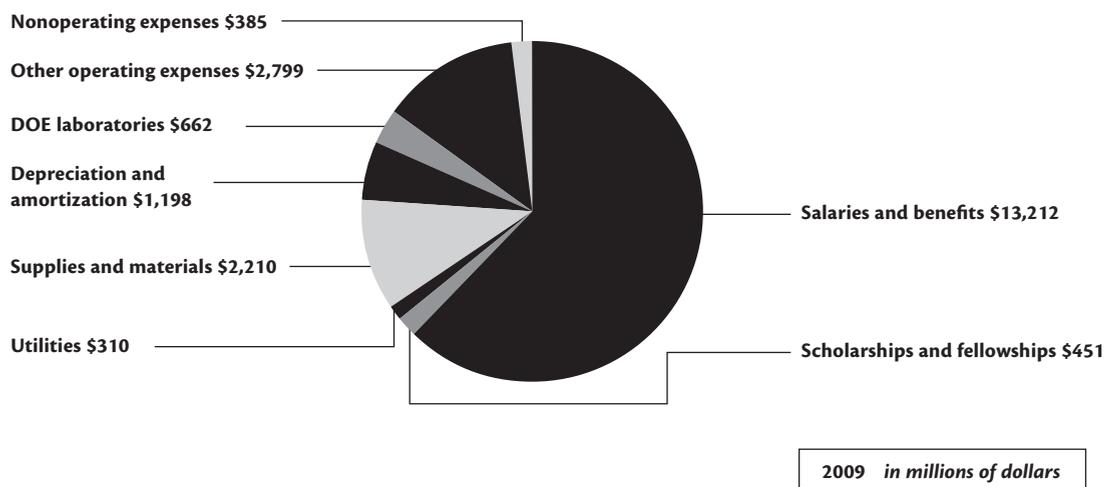
Other revenues (in millions of dollars)



Other revenues are from a variety of sources, including state financing appropriations and patent royalty income. Collectively, these revenues dropped by \$66 million in 2009 after growing by \$130 million in 2008. Patent royalty income declined in 2009 by \$45 million after increasing in 2008 by \$50 million. State financing appropriations were less in 2009 by \$3 million after growing by \$7 million in 2008. Compensation to the University as a member of LANS and LLNS totaled \$28 million in 2009 and \$25 million in 2008.

Expenses Associated with Core Activities

Categories of both operating and nonoperating expenses related to the University’s core activities in 2009 are as follows:



Expenses associated with the University’s core activities, including those classified as nonoperating expenses, were \$21.23 billion, \$20.58 billion and \$19.10 billion in 2009, 2008 and 2007, respectively. Expenses increased in 2009 by \$647 million. Salaries, benefits and other operating expenses outpaced the reduction in DOE laboratory expenses. Expenses increased in 2008 by \$1.48 billion. Major changes in 2008 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.

Salaries and benefits (in millions of dollars)



Over 60 percent of the University’s expenses are related to salaries and benefits. There are nearly 135,000 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 3,300 in 2009 and nearly 50 percent were 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 2009, 2008 and 2007 are as follows:

(in millions of dollars)

	2009	2008	2007
Salaries and wages	\$ 9,823	\$ 9,359	\$ 8,569
Pension benefits	69	3	6
Retiree health benefits	1,502	1,355	175
Other employee benefits	1,818	1,684	1,563
Salaries and benefits	\$13,212	\$12,401	\$10,313

During 2009, overall salaries and benefits grew by \$811 million from 2008, or 6.5 percent.

Salaries and wages increased by \$464 million in 2009, or 5.0 percent, including \$90 million, or 4.2 percent, at the University’s five medical centers. Other than at medical centers, salary and wage cost increases were primarily related to new academic and administrative employees necessary to directly support the increase in academic and research programs. As a result of reductions in state educational appropriations, generally there were no salary increases for staff in 2009, although faculty continued to receive merit increases.

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 UCRP, pension benefit costs were not significant in 2008 or 2007. However, in 2009 the University recorded an actuarially determined pension cost of \$69 million, based upon the latest actuarial valuation as of July 1, 2008, as the plan assets and actuarial liabilities begin to converge.

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 was \$1.50 billion and \$1.36 billion in 2009 and 2008, respectively. Prior to 2008, retiree health benefit expenses were recognized as they were paid.

Other employee benefit costs in 2009 increased by \$134 million, or 8.0 percent. The most prevalent increases were health insurance costs for active employees of \$117 million and the employer portion of payroll taxes of \$30 million, partially offset by lower worker’s compensation costs of \$31 million.

During 2008, salaries and benefits grew by \$2.09 billion from 2007, or 20.2 percent. Salaries and wages increased by \$790 million, or 9.2 percent, including \$278 million at the University’s medical centers where the growth was 12.1 percent. Retiree health benefit expense for the University’s campuses and medical centers resulting from the implementation of GASB Statement No. 45 was \$1.36 billion. Other benefit costs increased by \$121 million, or 7.7 percent, primarily from increases in health insurance costs of \$59 million, the employer portion of payroll taxes of \$42 million and student fee remissions of \$14 million.

Scholarships and fellowships *(in millions of dollars)*



Despite increases in student tuition and fees, the University places a high priority on student financial aid as part of its commitment to affordability. Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, were higher by \$23 million in 2009 than in 2008, an increase of 5.5 percent, and were higher by \$27 million in 2008 than in 2007, an increase of 6.6 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 2009 by \$74 million, or 11.5 percent, to \$715 million and increased in 2008 by 9.2 percent to \$641 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 \$1.17 billion in 2009 from \$1.07 billion in 2008 and \$988 million in 2007, an increase of \$178 million over the past two years, or 18.0 percent.

Utilities *(in millions of dollars)*



Utility costs rose by \$12 million in 2009 and by \$11 million in 2008. Over 80 percent of the University's utility costs are for electricity and natural gas. Electricity costs were up by \$10 million in 2009, after decreasing by \$8 million in 2008. Natural gas costs decreased by \$8 million in 2009 after increasing by \$14 million in 2008. Costs in 2009 for water increased by \$8 million.

Supplies and materials *(in millions of dollars)*



During 2009, overall supplies and materials costs increased by \$108 million, or 5.2 percent, and in 2008, by \$192 million, or 10.0 percent. In recent years, there has been inflationary pressure on the costs for medical supplies and laboratory instruments and higher costs for general supplies necessary to support expanded research activity and student enrollment. While that trend continued in 2009 for medical supplies, registering an \$86 million, or 10.0 percent, increase, general supplies were reduced by \$12 million, or 1.7 percent. Supplies associated with capital spending patterns increased by \$18 million.

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 \$1.20 billion in 2009 from \$1.09 billion in 2008 and \$1.05 billion in 2007.

DOE laboratories (in millions of dollars)



DOE laboratory expenses in 2009, 2008 and 2007 are as follows:

(in millions of dollars)

	2009	2008	2007
Lawrence Berkeley National Laboratory	\$ 613	\$ 540	\$ 514
Lawrence Livermore National Laboratory		443	1,597
DOE expense related to pension benefits			17
DOE expense related to retiree health benefits	49	56	42
DOE laboratory expenses	\$662	\$1,039	\$2,170

DOE laboratories' expenses decreased by \$377 million in 2009 and declined by \$1.13 billion in 2008.

At LBNL, expenses, excluding pension and retiree health, grew by \$73 million in 2009 and \$26 million in 2008. Salaries, along with employee benefits for active employees, are the predominant expenses totaling \$324 million in 2009, an increase of \$21 million from 2008. Salaries and employee benefits for active employees increased by \$10 million in 2008. Supplies and materials in 2009 and 2008 required for maintenance and seismic safety upgrades increased by \$23 million in both years. Spending for equipment grew by \$17 million in 2009 after declining by \$11 million 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 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 UCRP, there was no pension benefit expense attributable to the DOE laboratories in 2009 or 2008, 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 2009 of \$49 million is entirely attributable to LBNL retirees. Retiree health benefit expense for the DOE laboratories in 2008 of \$56 million consists of \$44 million for LBNL retirees 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 retirees through their contract termination dates.

Interest expense (in millions of dollars)



Interest expense, reported as a nonoperating expense, decreased by \$44 million in 2009 after increasing by \$15 million in 2008. The University has incurred additional interest expense as a result of new capital leases and bonds issued during the past three years, although the weighted average interest rate of the overall portfolio has decreased due to refinancing previously outstanding bonds at lower rates. Commercial paper rates have declined over the three years serving to reduce the University's short-term borrowing costs. Interest capitalized as part of construction costs also reduces interest expense. Capitalized interest was \$90 million in 2009, \$25 million in 2008 and \$34 million in 2007.

Other expenses (in millions of dollars)



Other expenses consist of a variety of expense categories, including travel, rent, insurance, legal settlements and repairs and maintenance, plus any gain or loss on disposals of capital assets and other nonoperating expenses. These expenses increased by \$10 million in 2009 and increased by \$235 million in 2008. In 2009, most expense categories either declined or increased very modestly. In 2008, there were substantive increases across nearly all expense categories, including a non-recurring legal settlement of \$40 million, partially offset by improved management of professional liability insurance claims that resulted in lower costs by \$44 million. Disposals and write-offs of capital assets resulted in a loss of \$27 million in 2009 compared to a loss of \$16 million in 2008. Typically, routine disposals result in a very slight gain or loss.

In accordance with the GASB's reporting standards, operating losses were \$4.77 billion in 2009, \$4.70 billion in 2008 and \$3.26 billion in 2007. The operating loss in 2009 was partially offset by \$3.32 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, expenses associated with core activities in 2009 exceeded revenue available to support core activities by \$1.45 billion.

Operating losses in 2008 increased significantly from 2007 due primarily to the change in financial reporting for retiree health benefit expense that resulted from implementation of GASB Statement No. 45. In 2008, operating losses of \$4.70 billion were partially offset by \$3.98 billion of net nonoperating revenue resulting in expenses exceeding revenue to support core activities by \$716 million. In 2007, operating losses of \$3.26 billion were more than offset by \$3.77 billion of net nonoperating revenue. In that year, revenue to support core activities exceeded the associated expenses by \$506 million.

Other Nonoperating Activities

The University's other nonoperating activities, consisting of 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 2009, the University recognized net depreciation in the fair value of investments of \$1.28 billion compared to net depreciation of \$192 million during 2008 and net appreciation of \$949 million during 2007. Equity markets suffered losses in both 2009 and 2008, although the losses were partially offset by an increase in the fair value of certain securities in the fixed-income portfolios. Conversely, in 2007, equity markets delivered substantial gains, although as short-term interest rates rose 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 assets. 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 decreased by \$81 million in 2009 after increasing by \$101 million in 2008. Capital appropriations are from bond measures approved by the California voters.

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



Capital gifts and grants decreased by \$90 million in 2009 after increasing by \$28 million in 2008. The pattern in 2009 was opposite of 2008. In 2009, private capital gifts declined substantially, although grants from federal and state sources grew by \$32 million. In 2008, the opposite occurred. Private capital gifts increased, 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.

Permanent endowments *(in millions of dollars)*

2009	\$11
2008	\$35
2007	\$39

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 \$165 million in 2009, \$215 million in 2008 and \$210 million in 2007.

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 2009, 2008 and 2007 is as follows:

<i>(in millions of dollars)</i>	2009	2008	2007
Cash received from operations	\$ 15,352	\$ 14,438	\$ 13,100
Cash payments for operations	(17,616)	(16,385)	(15,299)
Net cash used by operating activities	(2,264)	(1,947)	(2,199)
Net cash provided by noncapital financing activities	3,821	3,708	3,472
Net cash used by capital and related financing activities	(1,800)	(1,453)	(1,721)
Net cash provided (used) by investing activities	623	(347)	393
Net increase (decrease) in cash	380	(39)	(55)
Cash, beginning of year	108	147	202
Cash, end of year	\$ 488	\$ 108	\$ 147

The University's cash in demand deposit accounts rose by \$380 million in 2009 and declined by \$39 million and \$55 million in 2008 and 2007, respectively. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis, although a \$345 million deposit from the state at the end of 2009 was not invested in STIP until the following day creating the significant increase from the 2008 cash levels.

Over \$2.26 billion of cash was used for operating activities in 2009. Cash used for operating purposes has fluctuated within a range of \$1.95 billion to \$2.26 billion over the past three years.

Cash provided by noncapital financing activities has ranged between \$3.47 billion and \$3.82 billion over the same three years. As defined by the GASB, cash flows from noncapital financing activities includes state educational appropriations and gifts received for other than capital purposes that are used to support operating activities.

Cash flows from noncapital financing activities exceeded cash flows required for operating purposes by \$1.56 billion in 2009, \$1.76 billion in 2008 and \$1.27 billion in 2007. However, as previously indicated, subsequent to 2009, the state of California finalized their State Budget Act that required reversion to the state of \$715 million of 2009 state educational appropriations previously received. Had the State Budget Act been finalized prior to the end of the year, cash flows from noncapital financing activities would have been \$715 million less than reported.

Net cash of \$1.80 billion, \$1.45 billion and \$1.72 billion was used in 2009, 2008 and 2007, respectively, 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 capital appropriations and gifts for capital purposes.

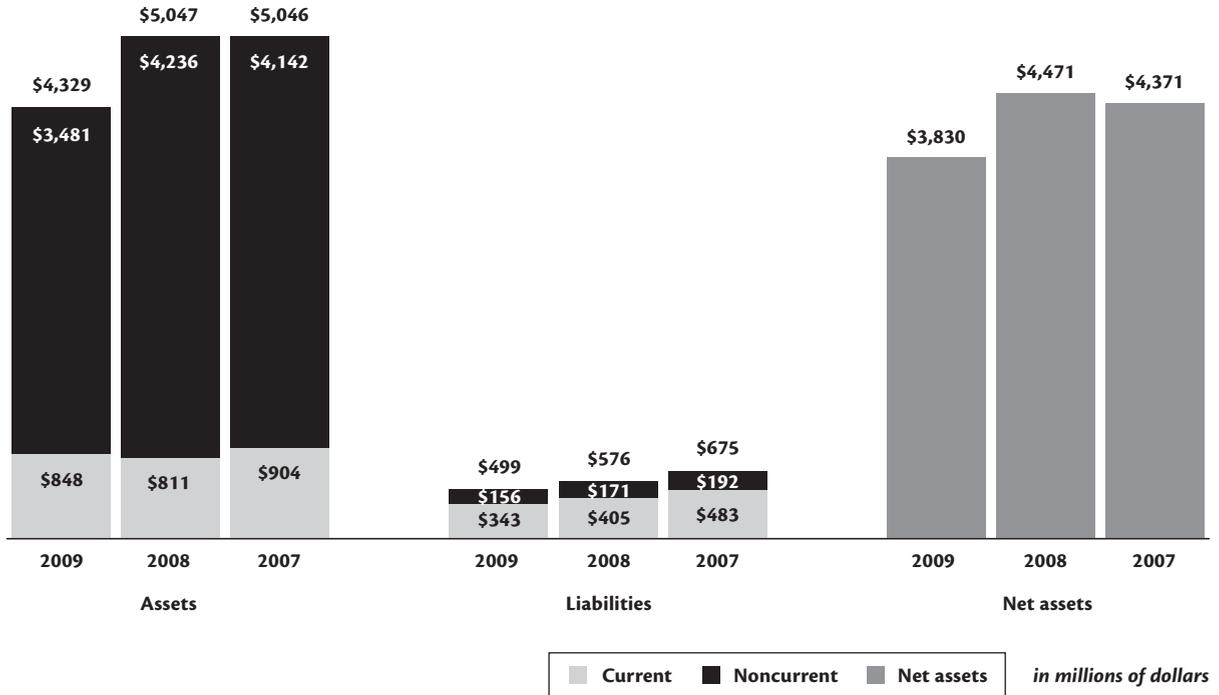
The year-to-year changes in cash provided (used) by investing activities is largely the result of the routine timing of investment purchases and, to a lesser extent, investment income.

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 2009, 2008 and 2007 are as follows:

(in millions of dollars)

	2009	2008	2007
ASSETS			
Investments	\$3,525	\$ 4,159	\$ 4,037
Investment of cash collateral	189	280	367
Pledges receivable, net	402	421	450
Other assets	213	187	192
Total assets	4,329	5,047	5,046
LIABILITIES			
Securities lending collateral	189	280	367
Obligations under life income agreements	162	181	181
Other liabilities	148	115	127
Total liabilities	499	576	675
NET ASSETS			
Restricted:			
Nonexpendable	1,867	1,916	1,728
Expendable	1,951	2,528	2,628
Unrestricted	12	27	15
Total net assets	\$3,830	\$4,471	\$4,371

Assets. Investments in 2009 declined by \$634 million from 2008. The significant changes were \$743 million of net depreciation in the fair value of investments and \$91 million of net cash payments as foundations' grants to the University were greater than the cash receipts from gifts, partially offset by \$154 million of new permanent endowments and \$64 million of investment income.

Investments in 2008 grew by \$122 million from 2007, generally resulting from \$180 million of new permanent endowments, \$78 million of investment income and \$12 million of net cash receipts, partially offset by \$143 million of net depreciation in the fair value of investments.

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 \$922 million, \$1.03 billion and \$1.13 billion of the campus foundations' investments at the end of 2009, 2008 and 2007, respectively.

The financial markets, both domestically and internationally, are currently demonstrating significant volatility that affect the valuation of investments. 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 \$160 million, \$199 million and \$320 million at the end of 2009, 2008 and 2007, respectively. The campus foundations with direct participation loaned securities for cash collateral of \$29 million, \$78 million and \$46 million at the end of 2009, 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 \$402 million at the end of 2009, down slightly by \$19 million from last year. Pledges receivable were \$421 million at the end of 2008, down by \$29 million from 2007.

Liabilities. Total campus foundations' liabilities were \$499 million in 2009 compared to \$576 million in 2008 and \$675 million in 2007. The decrease in both years is primarily related to lower securities lending activity that dropped by \$91 million and \$87 million in 2009 and 2008, respectively.

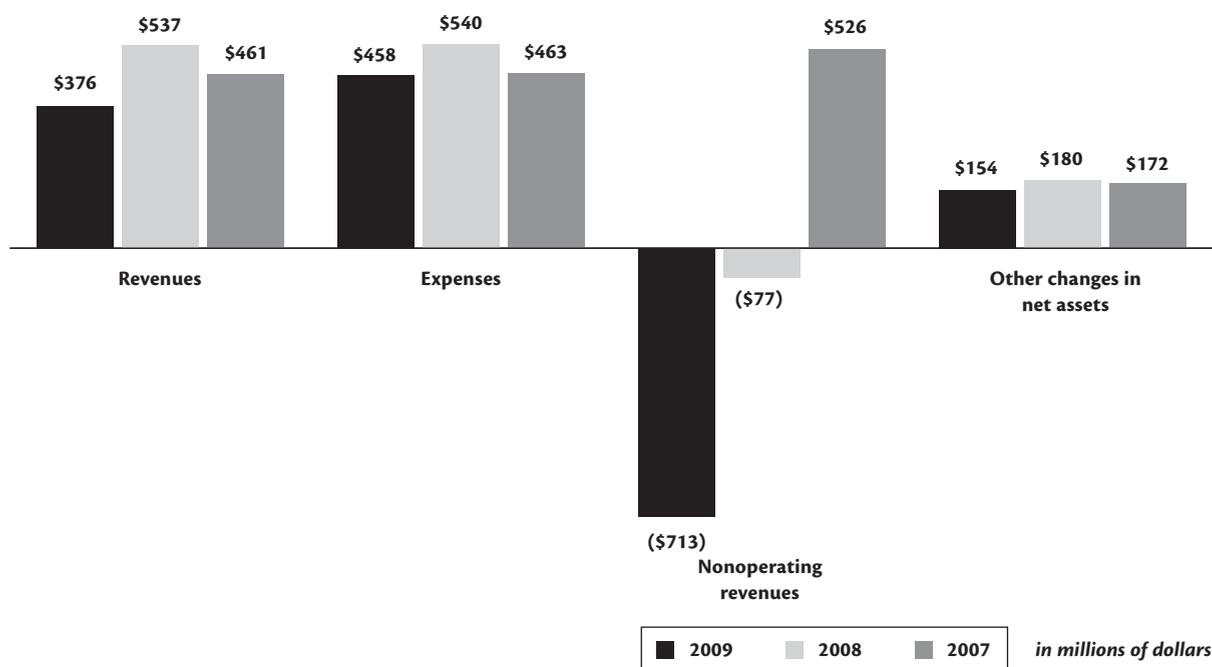
Net assets. Net assets are reported in certain categories based upon the nature of the restrictions on their use.

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 2009 and 2008.

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 2009, 2008 and 2007 is as follows:

(in millions of dollars)

	2009	2008	2007
OPERATING REVENUES			
Private gifts	\$ 373	\$ 534	\$ 458
Other revenues	3	3	3
Total operating revenues	376	537	461
OPERATING EXPENSES			
Grants to campuses	445	528	451
Other expenses	13	12	12
Total operating expenses	458	540	463
Operating loss	(82)	(3)	(2)
NONOPERATING REVENUES (EXPENSES)			
Investment income	64	78	79
Net appreciation (depreciation) in fair value of investments	(743)	(143)	451
Other nonoperating expenses	(34)	(12)	(4)
Income (loss) before other changes in net assets	(795)	(80)	524
OTHER CHANGES IN NET ASSETS			
Permanent endowments	154	180	172
Increase in net assets	(641)	100	696
NET ASSETS			
Beginning of year	4,471	4,371	3,675
End of year	\$3,830	\$4,471	\$4,371

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 decreased by \$161 million in 2009 after increasing by \$76 million in 2008.

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 \$64 million was lower than \$78 million in 2008 and \$79 million in 2007. Due to the performance of the financial markets in 2009 and 2008, the campus foundations' results include \$743 million and \$143 million of net depreciation in the fair value of investments in 2009 and 2008, respectively, compared to \$451 million of net appreciation in the fair value of investments in 2007.

Other changes in net assets. Gifts of permanent endowments of \$154 million in 2009 dropped by \$26 million from 2008 levels. In 2008, gifts of permanent endowments grew by \$8 million from 2007.

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 2009, 2008 and 2007 is as follows:

(in millions of dollars)

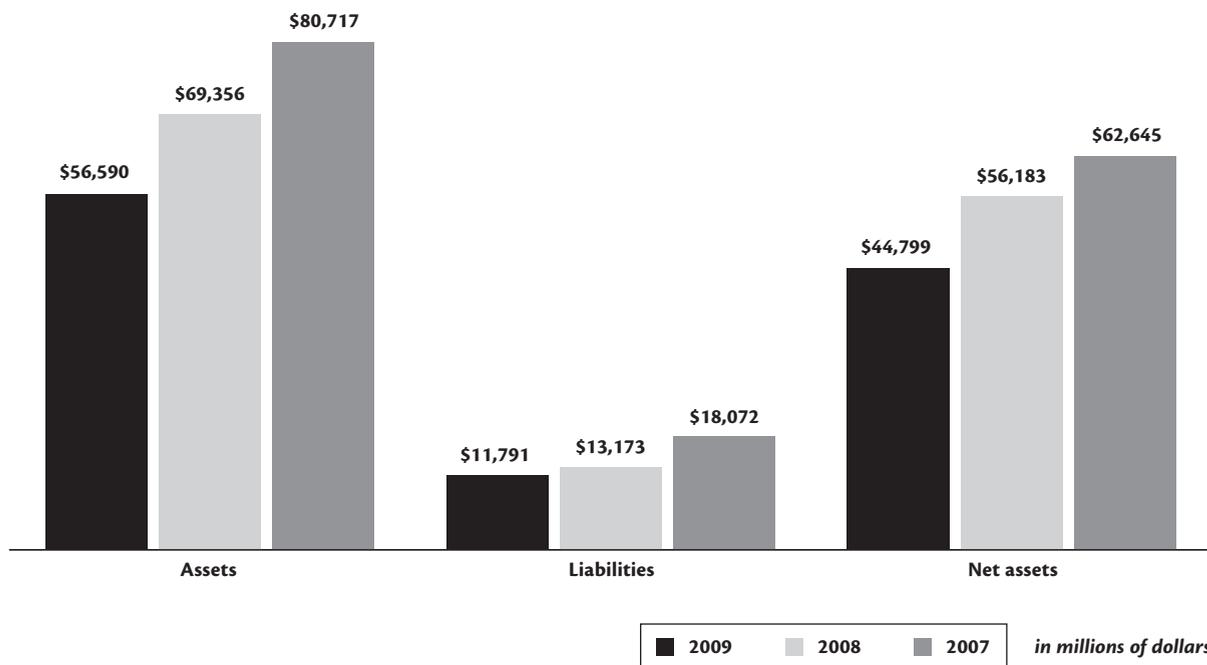
	2009	2008	2007
Cash received from private gifts	\$ 387	\$ 551	\$ 429
Cash payments for grants	(472)	(547)	(463)
Other cash receipts (payments), net	(6)	8	3
Net cash provided (used) by operating activities	(91)	12	(31)
Net cash provided by noncapital financing activities	147	163	163
Net cash used by investing activities	(24)	(186)	(96)
Net increase (decrease) in cash and cash equivalents	32	(11)	36
Cash and cash equivalents, beginning of year	151	162	126
Cash and cash equivalents, end of year	\$ 183	\$ 151	\$ 162

Cash and cash equivalents were \$183 million in 2009 compared to \$151 million in 2008, an increase of \$32 million. In 2008, cash decreased by \$11 million. Cash used by operating activities was \$91 million in 2009 compared to cash provided of \$12 million in 2008. Private gift revenue fell in 2009 as a result of economic conditions. 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 \$24 million in 2009 compared to \$186 million in 2008. The difference is the result of the routine timing of investment purchases.

THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

UCRS is a valuable component of the comprehensive benefits package offered to employees of the University. UCRS consists of the University of California Retirement Plan, a defined benefit plan for members; the University of California Retirement Savings Program (UCRSP) that includes four defined contribution plans (Defined Contribution Plan (DC Plan), Supplemental Defined Contribution Plan, 403(b) Plan and 457(b) Plan) 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.

UCRS' Financial Position



The statement of plans' fiduciary net assets presents the financial position of 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 UCRP and participants in the defined contribution plans and PERS-VERIP. At June 30, 2009, the UCRS plans' assets were nearly \$57 billion, liabilities nearly \$12 billion and net assets held in trust for pension benefits nearly \$45 billion, a decrease of \$11.38 billion from 2008. Net assets decreased in 2008 by \$6.46 billion from 2007.

The major components of the assets, liabilities and net assets available for pension benefits for 2009, 2008 and 2007 are as follows:

<i>(in millions of dollars)</i>			
	2009	2008	2007
ASSETS			
Investments	\$42,353	\$ 52,532	\$ 59,685
Participants' interest in mutual funds	2,924	3,773	3,794
Investment of cash collateral	10,350	12,162	16,884
Other assets	963	889	354
Total assets	56,590	69,356	80,717
LIABILITIES			
Securities lending collateral	10,387	12,224	16,885
Other liabilities	1,404	949	1,187
Total liabilities	11,791	13,173	18,072
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Members' defined benefit plan benefits	32,316	42,099	48,192
Participants' defined contribution plan benefits	12,483	14,084	14,453
Total net assets held in trust for pension benefits	\$44,799	\$56,183	\$62,645

Assets. UCRS investments, along with participants' interest in mutual funds, totaled \$45.28 billion at the end of 2009 compared to \$56.31 billion at the end of 2008, a decrease of \$11.03 billion. The decrease was generally a result of \$11.33 billion of net depreciation in the fair value of investments and benefit payments and participant withdrawals of \$2.47 billion that were partially offset by \$1.51 billion in net investment earnings, \$929 million in contributions to UCRS and the net effect of the securities trading settlements of \$332 million at the beginning and end of the year.

In 2008, UCRS investments, including participants' interest in external mutual funds, decreased by \$7.17 billion. The decrease in 2008 was generally a result of \$4.98 billion of net depreciation in the fair value of investments, benefit payments and participant withdrawals of \$2.80 billion, a transfer of UCRP assets to the LLNS defined benefit plan of \$1.57 billion and the net effect of the securities trading settlements of \$928 million at the beginning and end of the year, partially offset by \$1.89 billion in net investment earnings and \$1.04 billion in contributions to UCRS.

During 2009, participants' interest in external mutual funds, representing defined contribution plan contributions to certain mutual funds on a custodial plan basis, dropped by \$849 million to \$2.92 billion primarily through a combination of \$1.02 billion of depreciation in the fair value of investments and \$157 million of participant withdrawals, partially offset by \$256 million of participant contributions, \$69 million of investment earnings and \$7 million transferred from University-managed investments. In 2008, participants' interest in external mutual funds dropped by \$21 million to \$3.77 billion primarily through a combination of \$443 million of depreciation in the fair value of investments and \$289 million of participant withdrawals that was nearly offset by \$299 million of participant contributions, \$259 million of investment earnings and \$153 million transferred from University-managed investments.

Along with the University, 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 UCRS for securities on loan at the end of the year decreased in 2009 and 2008 by 15 percent and 28 percent, respectively. 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.

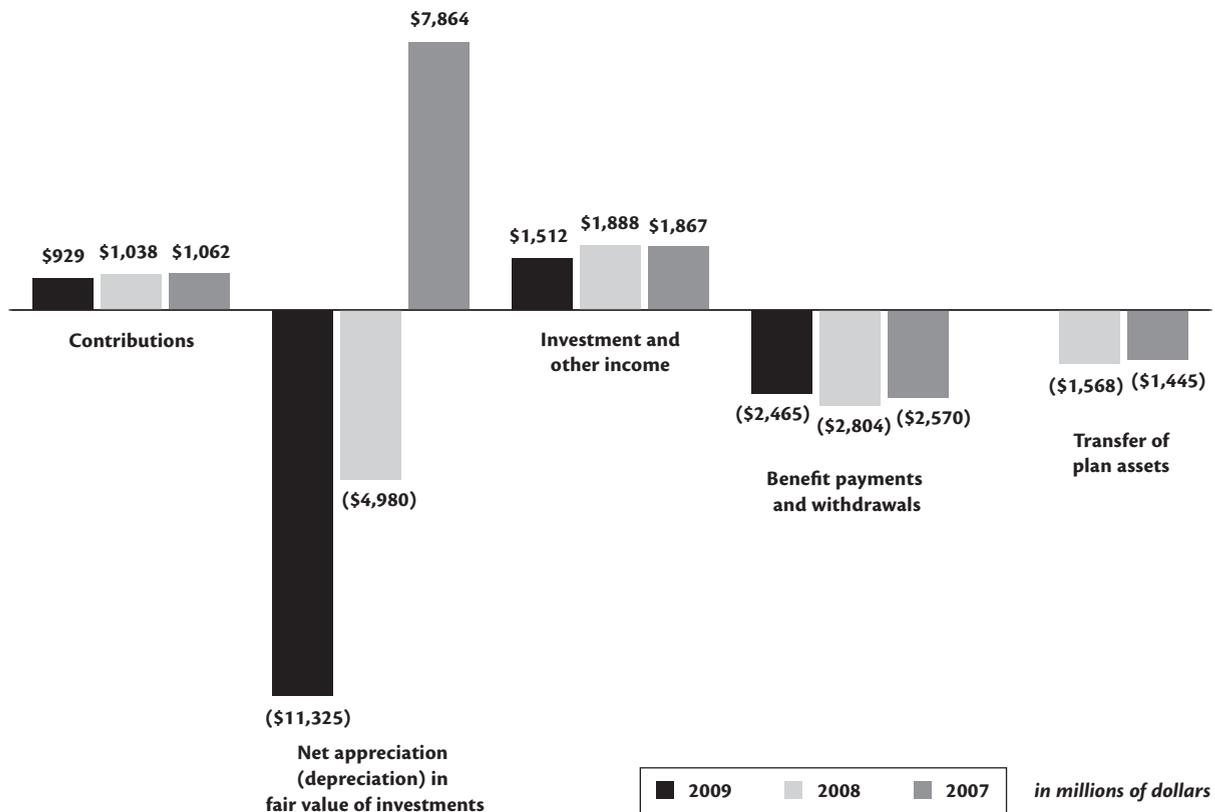
Liabilities. Total UCRS liabilities were \$11.79 billion in 2009 compared to \$13.17 billion and \$18.07 billion in 2008 and 2007, respectively. The most significant aspect of the change from year-to-year is a result of the demand under the securities lending program, with the remainder a result of changes in the liabilities for security purchases to be settled after year-end.

Net assets. As of June 30, 2009, a total of \$32.32 billion of the net assets are dedicated to the UCRP members' defined benefit plan benefits and over \$12.48 billion are associated with participants' tax deferred, defined contribution plan benefits. As of July 1, 2008, the date of the most recent actuarial report, the UCRP's overall funded ratio was 103.0 percent compared to 104.8 percent as of July 1, 2007.

While all assets of UCRP are available to pay any member's benefits, assets and liabilities for the campus and medical center segment of UCRP internally are tracked separately from the DOE national laboratory segment of UCRP. As of July 1, 2008, the funded ratio for the campus and medical center segment was 103.4 percent compared to 105.2 percent as of July 1, 2007. For the DOE national laboratory segment, as of July 1, 2008 the funded ratio was 101.3 percent compared to 103.5 percent as of July 1, 2007. The DOE has a continuing obligation to the University to provide contributions to pay UCRP benefits to laboratory segment retirees.

The Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. However, the financial markets, both domestically and internationally, have deteriorated over the past year. The fair value of investments held by UCRP declined subsequent to July 1, 2008. The actuarial value of plan assets also declined. As a result, the funded ratio as of the July 1, 2009 actuarial valuation for the campuses and medical centers as well as DOE laboratories is expected to be approximately 94.8 percent.

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 2009, 2008 and 2007 is as follows:

(in millions of dollars)

	2009	2008	2007
ADDITIONS (REDUCTIONS)			
Contributions	\$ 929	\$ 1,038	\$ 1,062
Net (depreciation) appreciation in fair value of investments	(11,325)	(4,980)	7,864
Investment and other income, net	1,512	1,888	1,867
Total additions (reductions)	(8,884)	(2,054)	10,793
DEDUCTIONS			
Benefit payments and participant withdrawals	2,465	2,804	2,570
Plan expenses	36	36	46
Transfer of assets to the LLNS defined benefit plan		1,568	
Transfer of assets to the LANS defined benefit plan			1,445
Total deductions	2,501	4,408	4,061
Increase (decrease) in net assets held in trust for pension benefits	\$(11,385)	\$(6,462)	\$6,732

Contributions. Contributions in 2009 decreased by \$109 million and in 2008 by \$24 million, partially resulting from discontinued participation in the defined contribution plans by former employees at LLNL and LANL transitioning from the University to LLNS and LANS. The majority of contributions, nearly \$920 million in 2009, are made by participants into the defined contribution plans that included \$7 million and \$8 million of University contributions in 2009 and 2008, respectively. Participants are required to make contributions to the DC Plan and may make voluntary and rollover contributions to the DC Plan, 403(b) plan and 457(b) plan. Due to the UCRP's funded position, neither the University nor the members have 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. UCRS recognized net depreciation in the fair value of investments of \$11.33 billion during 2009 compared to \$4.98 billion net depreciation in the fair value of investments during 2008. In 2007, there was net appreciation in the fair value of investments of \$7.86 billion.

The overall investment loss based upon unit values for UCRS was (16.6) percent in 2009 compared to an investment loss of (5.0) percent in 2008 and an investment gain of 17.7 percent in 2007.

Investment and other income, net. Investment and other income in 2009 of \$1.51 billion decreased by \$376 million, or 19.9 percent. Similarly, investment and other income in 2008 of \$1.89 billion increased by \$21 million, or 1.1 percent. The highly extraordinary financial and economic conditions in 2009 led to significantly lower interest rates and dividend payouts. Securities lending investment income, net of fees and rebates, increased to \$112 million in 2009 from \$97 million in 2008. A reduction in interest rates during the past two years resulted in lower levels of both gross income and rebates, although yields available from lending U.S. government fixed income securities were greater over the past two years.

Benefit payments and participant withdrawals. Benefit payments and participant withdrawals were \$339 million less in 2009 than in 2008 and \$234 million higher in 2008 than in 2007. Payments from UCRP and PERS-VERIP to retirees increased by \$96 million and \$154 million in 2009 and 2008, respectively, due to a growing number of retirees receiving payments, cost-of-living adjustments and member withdrawals. At the beginning of 2009, there were 50,100 retirees and beneficiaries receiving payments compared to 47,600 at the beginning of 2008. Elections of lump sum cash-outs of UCRP and participant withdrawals from the Retirement Savings Plans declined by a combined \$435 million in 2009 after growing by \$80 million in 2008. Participant withdrawals from the Retirement Savings Plans in 2008 were unusually high as a result of former employees at LLNL transitioning from the University to LLNS.

Transfer of assets to the 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 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 were not retained in UCRP was \$1.57 billion.

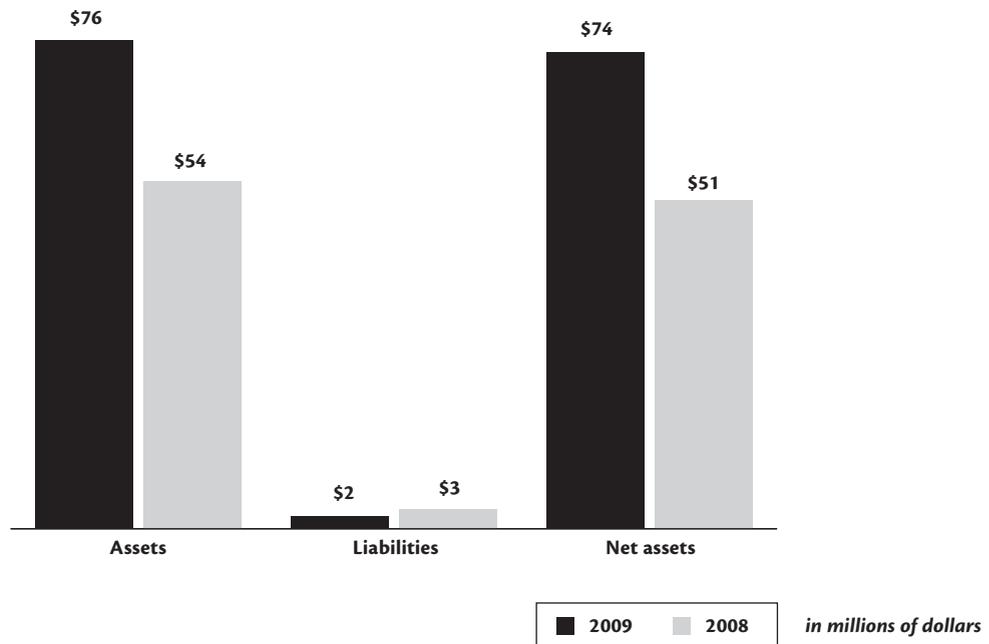
With the selection of LANS as the successor contractor to the University for the management of LANL effective June 1, 2006, assets and liabilities attributable to the UCRP benefits of the approximately 6,500 LANL employees who accepted employment with LANS and elected to participate in the defined benefit 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 were not retained in UCRP was \$1.44 billion.

Additional information on the retirement plans can be obtained from the 2009 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 (UCRHBT)

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 UCRHBT, therefore the DOE has no interest in the Trust’s assets.

UCRHBT’s Financial Position



The statement of trust’s fiduciary net assets presents the financial position of 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, 2009, the UCRHBT’s assets were \$76 million, liabilities were \$2 million and net assets held in trust for retiree health benefits were \$74 million, an increase of \$23 million from 2008.

The major components of the assets, liabilities and net assets available for retiree health benefits for 2009 and 2008 are as follows:

<i>(in millions of dollars)</i>		
	2009	2008
ASSETS		
Investments	\$ 38	\$ 20
Other assets	38	34
Total assets	76	54
LIABILITIES		
Total liabilities	2	3
NET ASSETS HELD IN TRUST FOR RETIREE HEALTH BENEFITS		
Total net assets held in trust for retiree health benefits	\$74	\$51

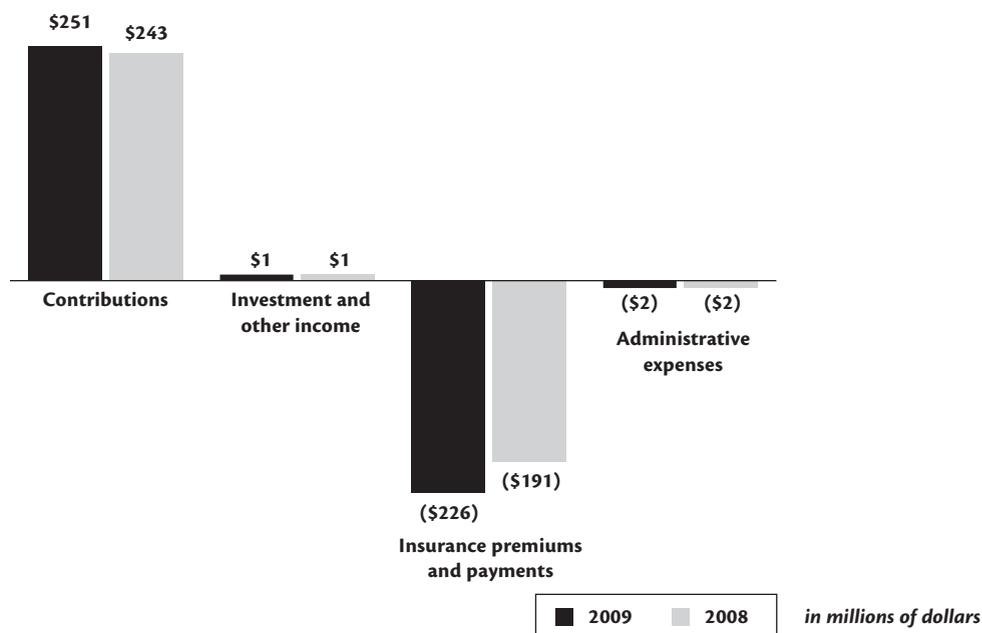
Assets. UCRHBT investments totaling \$38 million in 2009 and \$20 million in 2008 are restricted to a portfolio of high-quality money market instruments in a commingled fund. Other assets in 2009 consist of receivables, primarily contributions from the University of \$16 million and rebates from insurance carriers of \$5 million, and prepaid insurance premiums of \$17 million. Similarly, other assets in 2008 consist of contribution receivables from the University of \$15 million, rebates from insurance carriers of \$4 million and prepaid insurance premiums of \$15 million.

Liabilities. UCRHBT liabilities were \$2 million and \$3 million in 2009 and 2008, respectively, consisting of insurance premiums and claims and administrative expenses payable to the University.

Net assets. Net assets of \$74 million and \$51 million in 2009 and 2008, respectively, 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 health benefits provided under the University's plan and any liabilities related to the future funding requirements for the retiree health benefits are reported by the University. The actuarial accrued liability associated with the participants and beneficiaries who retired from a campus or medical center as of July 1, 2008, the date of the latest actuarial valuation, was \$13.30 billion. Contributions made to UCRHBT toward retiree health benefits, at rates determined by the University, reduce the unfunded actuarial accrued liability.

UCRHBT's Results of Operations



The statement of changes in trust'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 2009 and 2008 are as follows:

	2009	2008
ADDITIONS		
Contributions	\$ 251	\$ 243
Investment income	1	1
Total additions	252	244
DEDUCTIONS		
Insurance premiums and payments	226	191
Plan expenses	2	2
Total deductions	228	193
Increase in net assets held in trust for retiree health benefits	\$ 24	\$ 51

Contributions. Contributions in 2009 were \$251 million, an increase of \$8 million from \$243 million in 2008. Campuses and medical centers contributed \$235 million during the year based upon projected pay-as-you-go financing, and retirees from campuses and medical centers contributed \$16 million. In 2008, contributions from the campuses and medical centers were \$243 million, including a one-time contribution of \$20 million in order to provide initial cash for working capital purposes, and retirees from campuses and medical centers contributed \$17 million.

Investment income. Investment income consists of interest income of \$1 million for both 2009 and 2008. Even though invested balances were substantially greater this year, the investment return was lower. The overall investment return was 1.5 percent and 4.3 percent for 2009 and 2008, respectively.

Insurance premiums and payments. Insurance premiums and payments were \$226 million in 2009, including \$5 million of insurance rebates from carriers, compared to \$191 million in 2008. However, since insurance premiums and payments must be made in advance of the beginning of the month and the trust was established on July 1, 2007, UCRHBT's initial year in 2008 included eleven payments compared to twelve payments in 2009. After adjusting for this non-recurring circumstance, premiums and payments increased by approximately nine percent in 2009.

Plan expenses. The University acts as a third-party administrative agent on behalf of UCRHBT to pay health care insurers and administrators amounts currently due. UCRHBT paid the University \$2 million in both 2009 and 2008 for the cost of providing these services.

Additional information on the retiree health benefit plan can be obtained from the 2009 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's financial crisis that required reductions in both instructional and non-instructional programs. The state is continuing its work to resolve its serious financial situation in which expenditures have continued to exceed revenues.

Five 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. For the second consecutive fiscal year, the State Budget Act did not fully fund the Compact.

State educational appropriations for 2009 and 2010 include one-time and permanent reductions aggregating \$813 million, after considering one-time assistance of \$640 million from federal economic stimulus funds. The reduction for 2010 is \$637 million, when compared against the state educational appropriations that were originally budgeted for 2009 at the beginning of the year. Along with the \$813 million of reductions in state educational appropriations, the University is also absorbing \$335 million over the 2009 and 2010 period for increasing costs related to student enrollments, health benefit costs, faculty merits, utility costs, etc. that have not been funded by the state.

There is no state educational appropriation for enrollment growth. As a result, the University has announced measures to curtail enrollment of freshman by 2,300 for 2010, although this will be offset somewhat by an increase in transfers from California community colleges of 500 students. Even with this action, the University's student enrollment will be 11,000 over budget.

Student fee increases already in place for 2009 and those approved for 2010 address approximately \$211 million of the \$813 million in reductions. As a result, in July 2009, University administration worked with The Regents who approved a declaration of financial emergency effective for one year (September 1, 2009 to August 31, 2010) and proposed a series of budget actions. In addition to fee increases already approved, the University has implemented a furlough/salary reduction plan saving \$184 million, campus and systemwide layoffs and programmatic reductions saving \$343 million, and other systemwide savings, including debt restructuring, intended to save another \$75 million.

In addition to the above, over the course of 2010, the state will be deferring some payments to the University; \$250 million due in July 2009 will be deferred until October 2009, and another \$500 million will be deferred until the end of 2010. Other deferrals are also possible. The University is exploring measures such as utilizing its taxable commercial paper program for working capital purposes to mitigate the effect of the cash flow deferral.

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 works through its own financial constraints, there is a bipartisan effort underway to focus on innovation and competitiveness for the nation. In addition, the University is in an excellent position to attract substantial additional research funding in 2010 from federal economic stimulus funds made available by the American Recovery and Reinvestment Act. 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 2010 will likely continue to 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 continues to be required in order to satisfy demand. Most campus residence halls are occupied at design capacity. The University is responding to increased 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, UCRHBT will be the entity that holds the assets.

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 UCRP. In addition, since 1990, the required employee member contributions to UCRP have been suspended. However, contributions are required to be made to the separate defined contribution plan maintained by the University. Effective with the July 1, 2008 actuarial valuation, a new funding policy, including a three-year amortization period for any initial surplus, was adopted for UCRP. The new funding policy determines recommended total contributions based on UCRP's Normal Cost adjusted for any surplus or underfunding, starting in 2010. The University plans to implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time. Currently, The Regents has authorized the initial resumption of shared employer and employee contributions to UCRP beginning in April 2010. The State Budget Act for 2010 eliminated \$20 million in new funding for retirement contributions. The University is evaluating its options and will pursue restoration of this funding from the state.

The University's medical centers have demonstrated very positive financial results, although they continue to face financial and competitive challenges in their regional markets, 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 continue to increase significantly. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, along with the costs of maintaining and upgrading facilities, 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.

The state's financial circumstances have resulted in suspension of state general obligation and lease revenue bond funding for approximately \$613 million in capital projects for the University. The University is working with the state to implement alternate financing strategies for some of these 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.

Additional budget information can be found at <http://universityofcalifornia.edu/news/budget/welcome.html>. Additional information concerning state budget matters and the state's financial condition may be found on the website of the State of California Department of Finance at <http://www.dof.ca.gov>.

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, 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' and trust's fiduciary net assets of the University, its aggregate discretely presented component units, and the University of California Retirement System (the "Plans") and the University of California Retiree Health Benefit Trust (the "Trust"), respectively, at June 30, 2009 and 2008, and the respective changes in financial position and cash flows of the University and its component units, and the changes in the Plans' and the Trust's fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We 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 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of July 1, 2008.

The Required Supplementary Information ("RSI") on pages 115 through 116 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.



San Francisco, California
October 14, 2009

UNIVERSITY OF CALIFORNIA
STATEMENTS OF NET ASSETS

AT JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2009	2008	2009	2008
ASSETS				
Cash and cash equivalents	\$ 487,943	\$ 108,016	\$ 183,216	\$ 150,660
Short-term investments	2,036,487	4,068,848	359,426	346,492
Investment of cash collateral	1,844,661	2,096,106	163,680	210,224
Investments held by trustees	28,055	55,345		
Accounts receivable, net	2,682,475	2,426,507	6,506	12,343
Pledges receivable, net	48,213	55,759	131,352	88,942
Current portion of notes and mortgages receivable, net	29,598	32,206	16	32
Inventories	166,229	157,920		
Department of Energy receivable	95,458	82,552		
Other current assets	144,823	133,328	4,024	2,370
Current assets	7,563,942	9,216,587	848,220	811,063
Investments	11,367,085	10,759,175	3,165,196	3,812,419
Investment of cash collateral	346,219	1,121,617	25,363	69,453
Investments held by trustees	909,105	735,104		
Pledges receivable, net	44,815	50,399	270,419	331,803
Notes and mortgages receivable, net	298,516	287,107	486	502
Department of Energy receivable	66,438	31,494		
Capital assets, net	21,276,915	19,593,214		
Other noncurrent assets	183,802	188,104	19,284	21,523
Noncurrent assets	34,492,895	32,766,214	3,480,748	4,235,700
Total assets	42,056,837	41,982,801	4,328,968	5,046,763
LIABILITIES				
Accounts payable	2,453,465	1,332,914	3,200	8,087
Accrued salaries	704,526	705,354		
Employee benefits	212,667	195,385		
Deferred revenue	960,688	968,686		
Collateral held for securities lending	2,199,262	3,233,514	189,064	279,677
Commercial paper	665,525	550,000		
Current portion of long-term debt	466,905	546,461		
Funds held for others	200,856	270,118	130,917	92,584
Department of Energy laboratories' liabilities	83,212	66,374		
Other current liabilities	840,441	839,289	19,197	24,539
Current liabilities	8,787,547	8,708,095	342,378	404,887
Federal refundable loans	219,662	212,715		
Self-insurance	434,924	449,347		
Obligations under life income agreements	28,359	31,074	142,740	156,911
Long-term debt	9,857,040	8,928,521		
Obligation to UCRP	68,696			
Obligations for retiree health benefits	2,377,128	1,118,754		
Other noncurrent liabilities	407,818	406,596	13,532	14,134
Noncurrent liabilities	13,393,627	11,147,007	156,272	171,045
Total liabilities	22,181,174	19,855,102	498,650	575,932
NET ASSETS				
Invested in capital assets, net of related debt	10,822,512	10,034,663		
Restricted:				
Nonexpendable:				
Endowments and gifts	947,035	952,502	1,866,833	1,915,829
Expendable:				
Endowments and gifts	4,243,073	5,340,738	1,951,656	2,527,896
Other, including debt service, loans, capital projects and appropriations	314,530	452,346		
Unrestricted	3,548,513	5,347,450	11,829	27,106
Total net assets	\$19,875,663	\$22,127,699	\$3,830,318	\$4,470,831

See accompanying Notes to Financial Statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2009	2008	2009	2008
OPERATING REVENUES				
Student tuition and fees, net	\$ 2,096,817	\$ 1,921,918		
Grants and contracts, net				
Federal	2,982,797	2,910,560		
State	508,774	492,076		
Private	1,016,687	912,409		
Local	199,326	199,821		
Medical centers, net	5,496,077	4,917,235		
Educational activities, net	1,460,168	1,375,961		
Auxiliary enterprises, net	1,143,962	1,122,295		
Department of Energy laboratories	667,983	1,048,580		
Campus foundation private gifts			\$ 372,908	\$ 533,548
Other operating revenues, net	495,457	558,044	3,093	2,942
Total operating revenues	16,068,048	15,458,899	376,001	536,490
OPERATING EXPENSES				
Salaries and wages	9,822,533	9,359,064		
UCRP benefits	69,138	2,622		
Retiree health benefits	1,501,937	1,355,362		
Other employee benefits	1,818,301	1,684,330		
Scholarships and fellowships	451,263	427,588		
Utilities	309,842	298,440		
Supplies and materials	2,210,319	2,101,594		
Depreciation and amortization	1,197,404	1,093,620		
Department of Energy laboratories	661,863	1,039,330		
Campus foundation grants			444,730	527,572
Other operating expenses	2,799,176	2,793,086	13,496	12,084
Total operating expenses	20,841,776	20,155,036	458,226	539,656
Operating loss	(4,773,728)	(4,696,137)	(82,225)	(3,166)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	2,415,416	2,974,575		
State financing appropriations	161,128	163,794		
Private gifts, net	664,103	733,966		
Investment income:				
Short Term Investment Pool and other, net	304,132	348,029		
Endowment, net	138,355	159,220		
Securities lending, net	23,843	25,236	2,001	1,833
Campus foundations			61,754	76,008
Net depreciation in fair value of investments	(1,278,281)	(191,887)	(742,735)	(142,807)
Interest expense	(355,882)	(400,369)		
Loss on disposal of capital assets	(26,513)	(15,803)		
Other nonoperating expenses, net	(3,209)	(9,252)	(33,712)	(11,740)
Net nonoperating revenues (expenses)	2,043,092	3,787,509	(712,692)	(76,706)
Loss before other changes in net assets	(2,730,636)	(908,628)	(794,917)	(79,872)
OTHER CHANGES IN NET ASSETS				
State capital appropriations	313,019	393,964		
Capital gifts and grants, net	154,998	245,305		
Permanent endowments	10,583	34,695	154,404	179,208
Increase (decrease) in net assets	(2,252,036)	(234,664)	(640,513)	99,336
NET ASSETS				
Beginning of year, as restated	22,127,699	22,362,363	4,470,831	4,371,495
End of year	\$19,875,663	\$22,127,699	\$3,830,318	\$4,470,831

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 2,101,915	\$ 1,916,970		
Grants and contracts	4,792,250	4,701,366		
Medical centers	5,441,705	4,830,034		
Educational activities	1,456,141	1,344,471		
Auxiliary enterprises	1,135,646	1,130,832		
Collection of loans from students and employees	46,649	47,675		
Campus foundation private gifts			\$ 387,261	\$ 550,625
Payments to employees	(9,790,445)	(8,882,119)		
Payments to suppliers and utilities	(5,232,710)	(5,020,301)		
Payments for UCRP benefits	(2,371)	(22,204)		
Payments for retiree health benefits	(244,387)	(234,413)		
Payments for other employee benefits	(1,840,797)	(1,737,407)		
Payments for scholarships and fellowships	(450,360)	(427,558)		
Loans issued to students and employees	(54,394)	(61,421)		
Payments to campuses and beneficiaries			(471,544)	(546,557)
Other receipts (payments)	377,118	466,665	(6,468)	8,191
Net cash provided (used) by operating activities	(2,264,040)	(1,947,410)	(90,751)	12,259
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	3,217,312	2,981,254		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	10,338	32,480	147,920	160,528
Other private gifts	660,890	702,648		
Receipt of retiree health contributions from UCRP	14,512	16,952		
Payment of retiree health contributions to UCRHBT	(14,680)	(15,569)		
Receipts from UCRHBT	232,460	209,363		
Payments for retiree health benefits made on behalf of UCRHBT	(233,242)	(205,127)		
Student direct lending receipts	601,227	508,169		
Student direct lending payments	(601,227)	(508,169)		
Other receipts (payments)	(66,167)	(13,831)	(362)	2,832
Net cash provided by noncapital financing activities	3,821,423	3,708,170	147,558	163,360
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	891,647	527,807		
Payments of principal	(776,122)	(527,807)		
Interest paid	(7,514)	(18,674)		
State capital appropriations	296,683	394,026		
State financing appropriations	7,317	3,392		
Capital gifts and grants	100,762	176,540		
Proceeds from debt issuance	1,429,379	1,684,326		
Proceeds from the sale of capital assets	1,454	9,057		
Purchase of capital assets	(2,875,925)	(2,440,692)		
Refinancing or prepayment of outstanding debt	(87,516)	(663,888)		
Scheduled principal paid on debt and capital leases	(472,186)	(281,411)		
Interest paid on debt and capital leases	(339,788)	(316,021)		
Other receipts	31,348			
Net cash used by capital and related financing activities	(1,800,461)	(1,453,345)		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	66,382,974	72,001,318	526,138	767,356
Purchase of investments	(66,218,195)	(72,889,296)	(616,413)	(1,030,345)
Investment income, net of investment expenses	458,226	541,370	66,024	76,487
Net cash provided (used) by investing activities	623,005	(346,608)	(24,251)	(186,502)
Net increase (decrease) in cash and cash equivalents	379,927	(39,193)	32,556	(10,883)
Cash and cash equivalents, beginning of year	108,016	147,209	150,660	161,543
Cash and cash equivalents, end of year	\$ 487,943	\$ 108,016	\$183,216	\$ 150,660

See accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2009	2008	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	\$ (4,773,728)	\$ (4,696,137)	\$ (82,225)	\$ (3,166)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	1,197,404	1,093,620		
Noncash gifts			(6,520)	(17,839)
Allowance for doubtful accounts	49,602	1,234	19,253	896
Loss on impairment of capital assets		1,483		
Change in assets and liabilities:				
Investments			(743)	(754)
Accounts receivable	(55,209)	(462,274)	5,394	(6,687)
Pledges receivable			(346)	28,624
Investments held by trustees	(31,849)	(34,190)		
Inventories	(8,309)	(14,666)		
Other assets	(11,847)	(16,982)	4,173	33,296
Accounts payable	474	128,798	(5,290)	2,589
Accrued salaries	(828)	435,417		
Employee benefits	40,838	205,400		
Deferred revenue	3,928	177,879	498	(22,000)
Self-insurance	1,274	37,160		
Obligations to life beneficiaries			(20,444)	(12,862)
Obligation to UCRP	68,696			
Obligations for retiree health benefits	1,258,374	1,118,754		
Other liabilities	(2,860)	77,094	(4,501)	10,162
Net cash provided (used) by operating activities	\$(2,264,040)	\$(1,947,410)	\$(90,751)	\$12,259

SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION

Capital assets acquired through capital leases	\$ 87,853	\$ 58,615		
Capital assets acquired with a liability at year-end	93,164	99,786		
Investments held by trustees	(394)	(18,707)		
State financing appropriations	153,593	160,403		
Gifts of capital assets	28,954	63,876	\$ 303	\$ 25,523
Other noncash gifts	17,563	40,080	29,389	92,998
Gain (loss) on the disposal of capital assets	(26,513)	(15,803)		
Debt service for, or refinancing of, lease revenue bonds	(201,455)	(166,751)		
Refinancing of interim loans under lease-purchase agreements	(147,970)	(206,106)		
Securities lending activity	(1,034,251)	(1,320,440)	(51,860)	32,829
Interest added to principal			1,061	5,455
Beneficial interest in charitable remainder trust			4,768	7,324

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM AND RETIREE HEALTH BENEFIT TRUST

STATEMENTS OF PLANS' AND TRUST'S FIDUCIARY NET ASSETS

AT JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)		UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)		TOTAL UCRS AND UCRHBT	
	2009	2008	2009	2008	2009	2008
ASSETS						
Investments	\$ 42,352,723	\$ 52,532,169	\$ 38,384	\$ 19,773	\$ 42,391,107	\$ 52,551,942
Participants' interest in mutual funds	2,923,695	3,772,901			2,923,695	3,772,901
Investment of cash collateral	10,350,285	12,162,072			10,350,285	12,162,072
Participant 403(b) loans	107,192	96,790			107,192	96,790
Accounts receivable:						
Contributions from University and affiliates	59,449	67,394	15,994	14,671	75,443	82,065
Investment income	113,586	150,615	18		113,604	150,615
Securities sales and other	683,085	574,373	4,632	3,500	687,717	577,873
Prepaid insurance premiums			17,403	15,464	17,403	15,464
Total assets	56,590,015	69,356,314	76,431	53,408	56,666,446	69,409,722
LIABILITIES						
Payable to University			2,061	2,604	2,061	2,604
Payable for securities purchased	1,213,209	771,217			1,213,209	771,217
Member withdrawals, refunds and other payables	191,091	177,701			191,091	177,701
Collateral held for securities lending	10,387,181	12,223,854			10,387,181	12,223,854
Total liabilities	11,791,481	13,172,772	2,061	2,604	11,793,542	13,175,376
NET ASSETS HELD IN TRUST						
Members' defined benefit plan benefits	32,315,482	42,099,498			32,315,482	42,099,498
Participants' defined contribution plan benefits	12,483,052	14,084,044			12,483,052	14,084,044
Retiree health benefits			74,370	50,804	74,370	50,804
Total net assets held in trust	\$44,798,534	\$56,183,542	\$74,370	\$50,804	\$44,872,904	\$56,234,346

See accompanying Notes to Financial Statements

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

AT JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)		UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)		TOTAL UCRS AND UCRHBT	
	2009	2008	2009	2008	2009	2008
ADDITIONS (REDUCTIONS)						
Contributions:						
Members and employees	\$ 920,940	\$ 1,027,004			\$ 920,940	\$ 1,027,004
Retirees			\$ 15,895	\$ 16,952	15,895	16,952
University	8,044	10,894	235,115	226,192	243,159	237,086
Total contributions	928,984	1,037,898	251,010	243,144	1,179,994	1,281,042
Investment income (expense), net:						
Net depreciation in fair value of investments	(11,324,769)	(4,979,955)			(11,324,769)	(4,979,955)
Interest, dividends and other investment income	1,395,099	1,784,761	528	691	1,395,627	1,785,452
Securities lending income	217,438	685,910			217,438	685,910
Securities lending fees and rebates	(105,682)	(588,787)			(105,682)	(588,787)
Total investment income (expense), net	(9,817,914)	(3,098,071)	528	691	(9,817,386)	(3,097,380)
Interest income from contributions receivable	5,246	5,700			5,246	5,700
Total additions (reductions)	(8,883,684)	(2,054,473)	251,538	243,835	(8,632,146)	(1,810,638)
DEDUCTIONS						
Benefit payments:						
Retirement payments	1,287,572	1,195,414			1,287,572	1,195,414
Member withdrawals	78,794	96,690			78,794	96,690
Cost-of-living adjustments	235,134	213,478			235,134	213,478
Lump sum cashouts	156,572	312,489			156,572	312,489
Preretirement survivor payments	33,487	32,315			33,487	32,315
Disability payments	35,984	36,098			35,984	36,098
Death payments	6,462	7,309			6,462	7,309
Participant withdrawals	630,889	910,365			630,889	910,365
Total benefit payments	2,464,894	2,804,158			2,464,894	2,804,158
Insurance premiums:						
Insured plans			177,246	151,189	177,246	151,189
Self-insured plans			26,510	22,898	26,510	22,898
Medicare Part B reimbursements			22,211	17,105	22,211	17,105
Total insurance premiums, net			225,967	191,192	225,967	191,192
Expenses:						
Plan administration	34,911	34,384	2,005	1,839	36,916	36,223
Other	1,519	1,211			1,519	1,211
Total expenses	36,430	35,595	2,005	1,839	38,435	37,434
Transfer of assets to LLNS' defined benefit plan		1,567,209				1,567,209
Total deductions	2,501,324	4,406,962	227,972	193,031	2,729,296	4,599,993
Increase (decrease) in net assets held in trust	(11,385,008)	(6,461,435)	23,566	50,804	(11,361,442)	(6,410,631)
NET ASSETS HELD IN TRUST						
Beginning of year	56,183,542	62,644,977	50,804		56,234,346	62,644,977
End of year	\$ 44,798,534	\$56,183,542	\$ 74,370	\$ 50,804	\$ 44,872,904	\$56,234,346

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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) is 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 (UCRS) that includes two defined benefit plans, the University of California Retirement Plan (UCRP) and the University of California Public Employees’ Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS-VERIP), and four defined contribution plans in the University of California Retirement Savings Program (UCRSP), consisting of the Defined Contribution Plan (DC Plan), the Supplemental Defined Contribution Plan (SDC Plan), the Tax Deferred 403(b) Plan (403(b) Plan) and the 457(b) Deferred Compensation Plan (457(b) Plan). 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 (UCRHBT). The UCRHBT statements of trust's fiduciary net assets and changes in trust's fiduciary net assets are shown separately in the University's financial statements. 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 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was adopted by the University during the year ended June 30, 2009. Statement No. 49 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. The costs were estimated using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Previously, pollution remediation costs were accrued only if they were both probable of occurring and could be reasonably estimated.

In accordance with Statement No. 49 retrospective application is required. The cumulative effect of the accounting change described above to establish the initial \$41.8 million liability was recorded as an adjustment to the July 1, 2007 net assets as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		
	JULY 1, 2007 NET ASSETS		
	AS PREVIOUSLY REPORTED	EFFECT OF ADOPTION OF STATEMENT NO. 49	AS RESTATED
Invested in capital assets, net of related debt	\$ 9,101,981		\$ 9,101,981
Restricted:			
Nonexpendable:			
Endowments and gifts	920,329		920,329
Expendable:			
Endowments and gifts	5,457,743		5,457,743
Other, including debt service, loans, capital projects and appropriations	397,698		397,698
Unrestricted	6,526,429	\$ (41,817)	6,484,612
Total net assets	\$22,404,180	\$(41,817)	\$22,362,363

The University also restated the 2008 financial statements for purposes of presenting comparative information for the year ended June 30, 2009. The effect of the changes from the adoption of Statement No. 49 on the University's financial statements for the year ended June 30, 2008 was to reduce the liability from \$41.8 million at June 30, 2007 to \$33.1 million at June 30, 2008 as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		
	YEAR ENDED JUNE 30, 2008		
	AS PREVIOUSLY REPORTED	EFFECT OF ADOPTION OF STATEMENT NO. 49	AS RESTATED
Statement of Net Assets			
Other current liabilities	\$ 838,953	\$ 336	\$ 839,289
Current liabilities	8,707,759	336	8,708,095
Other noncurrent liabilities	373,846	32,750	406,596
Noncurrent liabilities	11,114,257	32,750	11,147,007
Total liabilities	19,822,016	33,086	19,855,102
Unrestricted net assets	5,380,536	(33,086)	5,347,450
Total net assets	22,160,785	(33,086)	22,127,699
Statement of Revenues, Expenses and Changes in Net Assets			
Other operating expenses	2,801,817	(8,731)	2,793,086
Total operating expenses	20,163,767	(8,731)	20,155,036
Operating loss	(4,704,868)	8,731	(4,696,137)
Loss before other changes in net assets	(917,359)	8,731	(908,628)
Decrease in net assets	(243,395)	8,731	(234,664)
Statement of Cash Flows			
Operating loss	(4,704,868)	8,731	(4,696,137)
Changes in assets and liabilities:			
Other liabilities	85,825	(8,731)	77,094

The adoption of Statement No. 49 did not result in any adjustments to the financial statements of the campus foundations, UCRS or UCRHBT.

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 generally 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.

As a result of inactive or illiquid markets, investments in non-agency mortgage-backed fixed income securities are valued on the basis of their estimated future principal and interest payments using appropriate risk-adjusted discount rates. The University believes this approximates the fair value of these investments.

Investments also 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 mutual funds. Participants in the University's defined contribution retirement plans may invest their account balances in funds managed by the University's Chief Investment Officer or in certain mutual funds.

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

Notes and mortgages receivable, net. Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other 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 in 2006, and LLNS, effective as of October 1, 2007, operate and manage Los Alamos National Laboratory (LANL) and 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.

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.

Pollution remediation obligations. Upon an obligating event, the University estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are generally accrued as a liability.

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, which must be retained in perpetuity by the University or the campus foundations, are classified as nonexpendable net assets. Such assets include the University and campus foundation 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 operating revenue.

Subsequent to June 30, 2009, the state of California finalized their State Budget Act that required reversion to the state of a portion of the University's 2009 state educational appropriations for the year ended June 30, 2009. The University's statement of net assets as of June 30, 2009 includes a liability to the state totaling \$795.0 million, primarily a result of \$715.5 million of state educational appropriation reversions.

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, 2009, the facilities and administrative cost recovery totaled \$824.9 million, \$621.6 million from federally-sponsored programs and \$203.3 million from other sponsors. 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.

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, 2009 and 2008:

(in thousands of dollars)

	2009	2008
Student tuition and fees	\$ 565,785	\$ 506,582
Auxiliary enterprises	142,143	127,382
Other operating revenues	7,078	7,349
Scholarship allowances	\$715,006	\$641,313

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

Both current employees and retirees at LBNL participate in UCRP. Current employees at both LANL and LLNL are no longer accruing benefits in UCRP. However, 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 the DOE laboratory expense in the statement of revenues, expenses and changes in net assets.

The University makes contributions to UCRP in 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 UCRP in behalf of LANL and LLNL retirees and terminated vested members, whose benefits were retained in UCRP, based upon a contractual arrangement with the DOE that incorporates a formula targeted to maintain the LANL and LLNL segments within 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 UCRP, University contributions to UCRP in 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 obligations 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 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 the 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 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. 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 UCRHBT.

The University acts as a third-party administrator on behalf of 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. UCRHBT reimburses the University for these amounts.

LBNL does not participate in 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 Prudent Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of 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 net 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. UCRS plans are qualified under Section 401(a) and the related trusts are tax exempt under Section 501(a) of the Internal Revenue Code. 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.

Comparative information. In connection with the preparation of the June 30, 2009 statement of revenues, expenses and changes in net assets, the University concluded that internal departmental recharges associated with utility costs in 2008 should have been credited against utilities expense rather than other operating expenses. As a result, revisions in classification have been made in the June 30, 2008 financial statements to reduce utilities expense and increase other operating expenses by \$93.5 million.

The effect on prior period financial statements was not material. However, management elected to make the revisions to the 2008 presentation to conform to the 2009 presentation. This revision in classification to the University's 2008 financial statements had no effect on previously reported operating revenues, operating expenses or decrease in net assets; total assets, liabilities and net assets; or net decrease in cash.

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

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

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 net appreciation or depreciation in the fair value of investments.

The University has determined that the interest rate swaps entered into in conjunction with certain Medical Center Pooled Revenue Bonds are derivative instruments that meet the criteria for an effective hedge and is continuing to evaluate the effect that Statement No. 53 will have on its financial statements with respect to securities in investment portfolios that may be derivative instruments.

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, 2009 and 2008, the carrying amount of the University's demand deposits, generally held in four nationally recognized banking institutions, was \$487.9 million and \$108.0 million, respectively, compared to bank balances of \$463.8 million and \$72.2 million, respectively. Deposits in transit and cash awaiting investment are the primary differences.

Bank balances of \$447.8 million in 2009 are insured by the Federal Deposit Insurance Corporation (FDIC). Under the FDIC's Transaction Account Guarantee Program (TAGP) adopted in November 2008, the FDIC fully insures the University's bank balances. The TAGP is currently effective through December 31, 2009. If the TAGP is not extended at that time, the FDIC insures the uncollateralized bank balances for \$1.0 million at the University's four major nationally recognized banking institutions, in addition to the FDIC insurance provided at the University's remaining banking institutions that have less significant bank balances.

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 \$2.2 million and \$3.7 million at June 30, 2009 and 2008, respectively.

The carrying amount of the campus foundations' cash and cash equivalents at June 30, 2009 and 2008 was \$183.2 million and \$150.7 million, respectively, compared to bank balances of \$106.9 million and \$83.1 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 \$64.5 million and \$54.9 million at June 30, 2009 and 2008, respectively, with the remaining uncollateralized bank balances insured by the FDIC under the TAGP. 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), Total Return Investment Pool (TRIP), 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.

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

Investments authorized by The Regents for STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, for 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.

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

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

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 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 GEP and UCRS. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for 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 account balances in defined contribution plans included as part of the UCRS' investments to be invested in mutual funds. The participants' interest in mutual funds is not managed by the Chief Investment Officer and totaled \$2.92 billion and \$3.77 billion at June 30, 2009 and 2008, respectively.

Investments authorized by The Regents for 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 55 days. The fair value of the UCRHBT's investment in this portfolio was \$38.4 million and \$19.8 million at June 30, 2009 and 2008, respectively.

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

The composition of investments, by investment type, at June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2009	2008	2009	2008	2009	2008
Equity securities:						
Domestic	\$ 1,185,621	\$ 1,209,086	\$ 146,234	\$ 245,463	\$ 12,154,737	\$ 19,868,126
Foreign	1,061,202	1,117,811	68,064	97,456	7,493,036	7,803,550
Equity securities	2,246,823	2,326,897	214,298	342,919	19,647,773	27,671,676
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	1,113,945	946,865	99,449	130,345	2,368,476	1,577,392
U.S. Treasury strips	69,125	29,659			101,463	1,204,670
U.S. TIPS	272,345	424,552			2,649,386	2,754,366
U.S. government-backed securities	3,331	3,637	3,267	4,406	12,964	14,158
U.S. government-backed–asset-backed securities			266	2,240		
U.S. government guaranteed	1,458,746	1,404,713	102,982	136,991	5,132,289	5,550,586
Other U.S. dollar denominated:						
Corporate bonds	4,053,628	3,259,085	76,231	61,324	2,245,234	3,060,306
Commercial paper	1,283,124	2,937,981				127,983
U.S. agencies	839,915	1,398,261	9,730	82,836	2,598,653	2,887,262
U.S. agencies–asset-backed securities	199,159	137,200	62,373	2,101	864,140	1,248,427
Corporate–asset-backed securities	217,404	241,409	9,808	11,947	1,382,042	1,731,551
Supranational/foreign	793,404	828,033	676	620	1,085,083	1,510,699
Other	55	15	1,753			
Other U.S. dollar denominated	7,386,689	8,801,984	160,571	158,828	8,175,152	10,566,228
Foreign currency denominated:						
Government/sovereign	126,096	189,068				1,125,748
Corporate	3,627	5,072			37,143	52,591
Foreign currency denominated	129,723	194,140			37,143	1,178,339
Commingled funds:						
Absolute return funds	1,234,209	1,355,318	397,568	412,024	1,898,974	648,683
Balanced funds			590,966	767,550		
U.S. equity funds	103,231	29,946	329,822	420,782	624,697	309,890
Non-U.S. equity funds	317,171	431,595	395,502	584,586	1,684,201	2,259,199
U.S. bond funds	42,106	40,243	205,569	168,668		
Non-U.S. bond funds			32,289	49,544		
Real estate investment trusts	66	104	42,362	73,877	56,463	44,586
Money market funds	54,323	26,895	409,199	357,418	1,312,351	508,340
Commingled funds	1,751,106	1,884,101	2,403,277	2,834,449	5,576,686	3,770,698
Private equity	452,630	503,322	268,599	317,587	1,845,065	1,859,887
Mortgage loans	754,266	586,387	13,305	10,532		
Insurance contracts					962,168	824,201
Real estate	226,516	288,078	113,990	139,720	982,105	1,110,554
Externally held irrevocable trusts	157,800	256,057	17,464	27,001		
Other investments	7,047	6,368	230,136	190,884	(5,658)	
Campus foundations' investments with the University	(922,180)	(1,031,751)				
UCRS investment in STIP	(245,594)	(392,273)				
Total investments	13,403,572	14,828,023	3,524,622	4,158,911	\$42,352,723	\$52,532,169
Less: Current portion	(2,036,487)	(4,068,848)	(359,426)	(346,492)		
Noncurrent portion	\$11,367,085	\$10,759,175	\$3,165,196	\$3,812,419		

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 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 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 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 TRIP, UCRS and GEP by virtue of the benchmarks chosen for the fixed income portion of those pools.

Fixed income benchmarks for TRIP include the Barclays Capital Aggregate Credit Index, Barclays Capital Aggregate Securitized Index, the Merrill Lynch High-Yield Cash Pay Index and the Barclays Capital Aggregate Government Index. The TRIP fixed income benchmark is comprised of 60 percent high grade corporate bonds, 13.3 percent mortgage/asset-backed securities, and 13.3 percent below investment grade securities, all of which carry some degree of credit risk. The remaining 13.3 percent is government-issued bonds.

Fixed income benchmarks for UCRS and GEP include the Citigroup Large Pension Fund Index and Barclays Capital Aggregate Index and 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 TRIP, UCRS and GEP is managed primarily by diversifying across issuers. In addition, portfolio guidelines for UCRS and GEP 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 UCRP and 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, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2009	2008	2009	2008	2009	2008
Fixed or variable income securities:						
U.S. government guaranteed	\$1,458,746	\$1,404,713	\$102,982	\$136,991	\$5,132,289	\$5,550,586
Other U.S. dollar denominated:						
AAA	1,286,231	2,040,336	83,573	96,884	4,499,623	5,919,687
AA	595,114	829,005	11,091	14,406	149,758	201,343
A	2,143,284	1,261,356	25,743	13,318	694,734	937,490
BBB	1,690,608	1,504,620	23,214	14,878	1,115,705	1,675,129
BB	181,839	102,045	4,376	6,025	607,875	651,869
B	120,359	121,800	2,705	3,240	774,471	965,527
CCC or below	68,744	408	7,828		331,681	2,979
A-1 / P-1 / F-1	1,283,124	2,937,981	112			127,983
Not rated	17,386	4,433	1,929	10,077	1,305	84,221
Foreign currency denominated:						
AA	126,096	189,068				1,125,748
A						5,946
B	3,627	5,072			37,143	46,645
Commingled funds:						
U.S. bond funds: Not rated	42,106	40,243	205,569	168,668		
Non-U.S. bond funds: Not rated			32,289	49,544		
Money market funds: Not rated	54,323	26,895	409,199	357,418	1,312,351	508,340
Mortgage loans: Not rated	754,266	586,387	13,305	10,532		
Insurance contracts: Not rated					962,168	824,201

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 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	
	2009	2008
Equity securities:		
Domestic	\$ 53,477	\$ 91,941
Foreign	855	1,212
Fixed or variable income securities:		
U.S. government guaranteed:		
U.S. Treasury bills, notes and bonds	61,717	92,801
U.S. government-backed-asset-backed securities		2,226
Other U.S. dollar denominated:		
U.S. agencies	6,010	2,224
Other	1,562	
Custodial credit risk exposure	\$123,621	\$190,404

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 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, 2009 and 2008 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2009	2008	2009	2008
Fannie Mae		\$783,608	\$44,151	\$62,897
Baupost Bermuda Value Partners-IV			29,186	
Silchester International Value Equity Trust			25,796	29,309
Gryphon International EAFE Growth Fund				28,613

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 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 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 TRIP limit weighted average effective duration to the effective duration of the benchmarks (Barclays Capital Aggregate Credit Index, Barclays Capital Aggregate Securitized Index, the Merrill Lynch High-Yield Cash Pay Index and Barclays Capital Aggregate Government Index), plus or minus 10 percent. Similarly, portfolio guidelines for the fixed income portion of UCRS and GEP limit weighted average effective duration to the effective duration of their benchmarks (Citigroup Large Pension Fund Index and Lehman Aggregate Index), plus or minus 20 percent. These portfolio guidelines constrain 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, 2009 and 2008 are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2009	2008	2009	2008	2009	2008
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	2.0	1.0	4.2	4.5	1.9	0.7
U.S. Treasury strips	9.1	8.0			12.1	11.4
U.S. TIPS	4.1	5.3			5.0	5.3
U.S. government-backed securities	6.0	6.3	3.9	3.8	6.0	6.3
U.S. government-backed–asset-backed securities			3.9	3.9		
Other U.S. dollar denominated:						
Corporate bonds	3.0	2.6	3.6	4.0	5.8	7.6
Commercial paper	0.0	0.0			0.0	0.0
U.S. agencies	2.0	1.4	4.0	2.5	3.5	2.5
U.S. agencies–asset-backed securities	2.8	4.4	2.1	3.3	4.4	4.6
Corporate–asset-backed securities	7.0	3.8	0.5	0.6	5.5	4.1
Supranational / foreign	7.1	2.8	5.0	0.0	6.8	7.2
Other	5.4	0.6	4.1			
Foreign currency denominated:						
Government/sovereign	6.7	6.6				6.6
Corporate	4.1	3.9			4.1	6.1
Commingled funds:						
U.S. bond funds	4.3	4.7	5.1	4.6		
Non-U.S. bond funds			2.8	5.1		
Money market funds	0.0	0.0	1.6	1.8	1.7	1.8
Mortgage loans	0.0	0.0	5.2	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 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 consist of underlying securities that are of a short-term, liquid nature.

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, 2009 and 2008, 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	
	2009	2008	2009	2008	2009	2008
Mortgage-backed securities	\$ 471,171	\$ 339,991	\$ 56,339	\$ 72,953	\$ 1,908,498	\$ 2,289,645
Collateralized mortgage obligations	11,251		5,592	8,048	253,604	46,824
Other asset-backed securities	7,187	4,139	7,871	11,947	85,175	24,183
Variable-rate securities	389,792	609,359			25,017	67,771
Callable bonds	795,288	1,500,966	420	506	2,095,604	2,770,965
Total	\$1,674,689	\$2,454,455	\$70,222	\$93,454	\$4,367,898	\$5,199,388

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, 2009 and 2008, the effective durations for these securities are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2009	2008	2009	2008	2009	2008
Mortgage-backed securities	4.5	4.3	2.0	2.5	5.9	5.0
Collateralized mortgage obligations	1.7		2.0	1.7	2.4	5.2
Other asset-backed securities	1.1	3.2	0.5	0.6	0.7	4.0
Variable-rate securities	0.1	0.2			1.8	5.2
Callable bonds	2.4	1.6	8.6		3.2	2.7

Foreign Currency Risk

The University's strategic asset allocation policy for TRIP, UCRS and GEP includes 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, 2009 and 2008, 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	
	2009	2008	2009	2008	2009	2008
Equity securities:						
Euro	\$ 330,165	\$ 390,493	\$ 15,892	\$ 27,057	\$ 2,299,494	\$ 2,647,165
Japanese Yen	222,312	208,201	10,634	16,069	1,589,171	1,473,375
British Pound	196,468	211,126	10,246	13,065	1,392,245	1,489,215
Canadian Dollar	79,350	79,614	3,025	3,447	596,213	615,458
Swiss Franc	79,115	79,823	6,610	9,216	542,002	539,707
Australian Dollar	60,646	59,037	2,566	3,538	456,496	437,870
Hong Kong Dollar	33,380	25,676	7,626	4,179	215,023	170,512
Swedish Krona	20,083	19,661			145,396	143,274
Singapore Dollar	16,431	14,990	416	1,810	108,269	96,803
Danish Krone	8,102	9,342	1,063	1,253	59,108	68,424
Norwegian Krone	7,259	9,120	1,036	597	49,041	70,487
South Korean Won	2,006	2,943	336	502	9,768	13,532
New Zealand Dollar	841	741			6,241	5,341
South African Rand	1,255	1,879	394	527	6,114	8,639
Thai Baht	747	2,309			3,638	10,617
Other	3,042	2,856	8,220	16,196	14,817	13,131
Subtotal	1,061,202	1,117,811	68,064	97,456	7,493,036	7,803,550
Fixed income securities:						
Euro	63,598	99,699			36,740	609,937
Japanese Yen	48,038	67,240				400,358
British Pound	9,576	13,685			403	81,620
Canadian Dollar	2,852	4,261				31,316
Danish Krone	1,005	1,527				9,094
Polish Zloty	926	2,011				11,977
Swiss Franc	828	1,371				8,161
Swedish Krona	768	1,381				8,225
Australian Dollar	750	808				4,811
Malaysian Ringgit	591	854				5,086
Singapore Dollar	468	729				4,338
Norwegian Krone	323	574				3,416
Subtotal	129,723	194,140			37,143	1,178,339
Commingled funds:						
Various currency denominations:						
Balanced funds			152,012	204,990		
Non-U.S. equity funds	317,171	431,595	373,638	494,624	1,684,201	2,259,199
Non-U.S. bond funds			25,485	29,683		
Real estate investment trusts			17,005	21,526		
Subtotal	317,171	431,595	568,140	750,823	1,684,201	2,259,199
Private equity:						
Euro	1,114	1,425			17,400	20,114
Swedish Krona	42				937	
Real estate:						
Hong Kong Dollar	1,716				16,443	
Japanese Yen	1,505				14,423	
Other	3,031				29,041	
Subtotal	7,408	1,425			78,244	20,114
Total exposure to foreign currency risk	\$1,515,504	\$1,744,971	\$636,204	\$848,279	\$9,292,624	\$11,261,202

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. Futures contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker the next day for the amount of the previous day's mark to market. The amount that is settled in cash with the broker the next day is the carrying and fair value of the futures contracts that is 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 UCRS held any option contracts at June 30, 2009 or June 30, 2008.

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 UCRS held any interest rate swap contracts for investment purposes at June 30, 2009 or June 30, 2008. 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, 2009, by investment pool, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				TOTAL
	STIP	TRIP	GEP	OTHER	
Equity securities:					
Domestic		\$ 184,600	\$ 930,213	\$ 70,808	\$ 1,185,621
Foreign		128,424	918,669	14,109	1,061,202
Fixed or variable income securities:					
U.S. government guaranteed	\$ 1,131,684	52,930	232,848	41,284	1,458,746
Other U.S. dollar denominated	5,641,612	1,062,226	634,410	48,441	7,386,689
Foreign currency denominated			129,723		129,723
Commingled funds		16,225	1,657,221	77,660	1,751,106
Private equity			440,976	11,654	452,630
Mortgage loans	754,266				754,266
Real estate			210,531	15,985	226,516
Externally held irrevocable trusts				157,800	157,800
Other investments			(253)	7,300	7,047
Subtotal	7,527,562	1,444,405	5,154,338	445,041	14,571,346
Campus foundations' investments with the University	(380,856)		(433,661)	(107,663)	(922,180)
UCRS investment in STIP	(245,594)				(245,594)
Total investments	\$6,901,112	\$1,444,405	\$4,720,677	\$337,378	\$13,403,572

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, 2009 was (1.6) percent for TRIP, (18.2) percent for GEP and (16.6) percent for UCRS. The investment return for STIP distributed to participants, representing combined income and realized gains or losses, during the same period, was 3.6 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

UCRS and campus foundations may invest available cash in STIP. Shares are purchased or redeemed in STIP at a constant value of \$1 per share. Actual income earned, including any realized gains or losses on the sale of STIP investments, is allocated to 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 STIP are recorded by the University of California as the manager of the pool.

The campus foundations may purchase or redeem shares in 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.

UCRS

UCRS had \$245.6 million and \$392.3 million invested in STIP at June 30, 2009 and 2008, 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. 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, UCRS totaling \$9.1 million and \$13.8 million for the years ended June 30, 2009 and 2008, 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 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, 2009 and 2008 is as follows:

(in thousands of dollars)

	2009	2008
STIP	\$ 380,856	\$ 364,872
GEP	433,661	539,591
Other investment pools	107,663	127,288
Campus foundations' investments with the University	922,180	1,031,751
Classified as cash and cash equivalents by campus foundations	(65,122)	(56,470)
Classified as investments by campus foundations	\$857,058	\$ 975,281

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 \$26.4 million and \$34.0 million for the years ended June 30, 2009 and 2008, respectively.

Agency Relationships with the University

STIP and GEP are external investment pools and include investments in 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 UCRS and campus foundations, participants purchase or redeem shares in STIP at a constant value of \$1 per share and purchase or redeem shares in 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, 2009 and 2008 are as follows:

(in thousands of dollars)

	2009	2008
Short-term investments:		
STIP	\$ 68,834	\$ 104,291
GEP	116,897	144,963
Other investment pools	15,125	20,864
Total agency assets	\$200,856	\$270,118
Funds held for others	\$200,856	\$270,118

The composition of the net assets at June 30, 2009 and 2008 for STIP and GEP is as follows:

(in thousands of dollars)

	STIP		GEP	
	2009	2008	2009	2008
Investments	\$ 7,527,562	\$ 9,286,253	\$ 5,154,338	\$ 6,384,873
Investment of cash collateral	1,388,274	2,363,731	719,873	992,888
Securities lending collateral	(1,393,223)	(2,374,038)	(722,439)	(998,108)
Other assets (liabilities), net	497,146	117,676	(75,071)	18,110
Net assets	\$8,019,759	\$9,393,622	\$5,076,701	\$6,397,763

The changes in net assets for STIP and GEP for the years ending June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

	STIP		GEP	
	2009	2008	2009	2008
Net assets, beginning of year	\$ 9,393,622	\$ 8,371,634	\$ 6,397,763	\$ 6,753,357
Investment income	286,597	415,226	148,365	167,688
Net appreciation (depreciation) in fair value of investments	89,756	44,102	(1,303,982)	(396,382)
Transfer to TRIP	(1,518,000)			
Participant contributions (withdrawals), net	(232,216)	562,660	(165,445)	(126,900)
Net assets, end of year	\$8,019,759	\$9,393,622	\$5,076,701	\$6,397,763

3. SECURITIES LENDING

The University and 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. Securities collateral 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, 2009 and 2008, the securities in these pools had a weighted average maturity of 37 and 27 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, 2009, the University had little exposure to borrowers because the amounts the University owed the borrowers were substantially the same as the amounts the borrowers owed the University. The University is 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, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2009	2008	2009	2008	2009	2008
SECURITIES LENT						
<i>For cash collateral:</i>						
Equity securities:						
Domestic	\$ 314,190	\$ 219,975	\$ 27,706	\$ 77,990	\$ 2,966,044	\$ 2,575,061
Foreign	230,755	165,410			1,660,423	1,254,829
Fixed income securities:						
U.S. government guaranteed	1,166,346	1,268,540			4,306,053	4,866,707
Other U.S. dollar denominated	624,378	1,700,774			1,115,132	3,194,168
Foreign currency denominated	153	1,300				7,743
Campus foundations' share	(160,495)	(199,248)	160,495	199,248		
Lent for cash collateral	2,175,327	3,156,751	188,201	277,238	10,047,652	11,898,508
<i>For securities collateral:</i>						
Equity securities:						
Domestic	13,080	4,784			104,095	114,551
Foreign	23,569	46,604			117,161	219,714
Fixed income securities:						
U.S. government guaranteed	131,795	126,604			44,880	617,248
Other U.S. dollar denominated	323,611	98			896,946	11,230
Foreign currency denominated	5,620	1,040			15,662	6,191
Lent for securities collateral	497,675	179,130			1,178,744	968,934
Total securities lent	\$2,673,002	\$3,335,881	\$188,201	\$277,238	\$11,226,396	\$12,867,442
COLLATERAL RECEIVED						
Cash	\$ 2,359,757	\$ 3,432,762	\$ 28,569	\$ 80,429	\$ 10,387,181	\$ 12,223,854
Campus foundations' share	(160,495)	(199,248)	160,495	199,248		
Total cash collateral received	2,199,262	3,233,514	189,064	279,677	10,387,181	12,223,854
Securities	510,803	186,032			1,209,837	1,006,268
Total collateral received	\$2,710,065	\$3,419,546	\$189,064	\$279,677	\$11,597,018	\$13,230,122
INVESTMENT OF CASH COLLATERAL						
Fixed income securities:						
Other U.S. dollar denominated:						
Corporate bonds	\$ 250,014	\$ 706,651	\$ 7,509	\$ 9,524	\$ 1,100,515	\$ 2,633,406
Commercial paper	106,004	2,267			466,609	22,670
Repurchase agreements	275,986	637,381	11,252	22,064	1,214,836	2,369,817
Corporate-asset-backed securities	541,202	994,968	2,000	2,250	2,382,262	3,472,835
Certificates of deposit/time deposits	1,164,750	845,886	2,926	15,017	5,126,998	2,879,335
Supranational/foreign	64,877	221,218			285,576	712,008
Other			2,000	7,018		
Commingled funds-money market funds	96,160	7,132	2,861	24,556	423,277	67,942
Other assets (liabilities), net ¹	(147,618)	1,468			(649,788)	4,059
Campus foundations' share	(160,495)	(199,248)	160,495	199,248		
Investment of cash collateral	2,190,880	3,217,723	189,043	279,677	\$10,350,285	\$12,162,072
Less: Current portion	(1,844,661)	(2,096,106)	(163,680)	(210,224)		
Noncurrent portion	\$ 346,219	\$1,121,617	\$ 25,363	\$ 69,453		

¹ Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.

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, 2009 and 2008 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2009	2008	2009	2008	2009	2008
Securities lending income	\$ 45,870	\$ 175,262	\$ 4,345	\$ 13,626	\$ 217,438	\$ 685,910
Securities lending fees and rebates	(22,027)	(150,026)	(2,344)	(11,793)	(105,682)	(588,787)
Securities lending investment income, net	\$23,843	\$ 25,236	\$2,001	\$ 1,833	\$111,756	\$ 97,123

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's and 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 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, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2009	2008	2009	2008	2009	2008
Fixed or variable income securities:						
Other U.S. dollar denominated:						
AAA	\$ 512,924	\$ 1,169,199	\$ 2,000	\$ 7,272	\$ 2,257,794	\$ 4,038,265
AA+	2,407	58,995			10,597	189,881
AA	102,567	163,931	2,000	7,502	451,481	714,324
AA-	77,744	337,617			342,212	1,195,790
A+	129,329	166,445			569,280	624,847
A	32,634	35,195	10,435	19,034	143,649	141,149
A-		1,746				17,458
BBB	6,955	5,564			30,613	55,073
BB-	10,032				44,159	
A-1 / P-1 / F-1	1,528,241	1,456,841			6,727,011	4,984,924
Not rated		12,838	11,252	22,065		128,360
Commingled funds:						
Money market funds: Not rated	96,160	7,132	2,861	24,556	423,277	67,942
Other assets (liabilities), net ¹ : Not rated	(147,618)	1,468			(649,788)	4,059
Campus foundations' share	(160,495)	(199,248)	160,495	199,248		

¹ Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.

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 UCRS' investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restricts 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, 2009 and 2008 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2009	2008	2009	2008	2009	2008
JP Morgan Chase	\$170,835	\$310,406	\$ 2,000		\$751,980	\$1,008,099
BNP Paribas	138,862				611,242	
Bank of America	131,478		2,000		578,741	
Lehman Brothers		208,779				681,221
Deutsche Bank Securities			11,252			
Sun Trust Bank			2,926			
General Electric Capital Corporation			3,009			
Bank of New York/Mellon			2,861			
Goldman Sachs			2,500	\$10,019		
Rabo Bank Nederland NV			2,000			
Daiwa Securities America, Inc.				22,065		
Bank of New York				14,537		
Campus foundations' share	(32,681)	(30,475)	32,681	30,475		

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 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, 2009 and 2008 is as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2009	2008	2009	2008	2009	2008
Fixed or variable income securities:						
Other U.S. dollar denominated:						
Corporate bonds	43	45	33	43	43	48
Commercial paper	70	35			70	35
Repurchase agreements	1	1	1	1	1	1
Corporate–asset-backed securities	23	28	15	15	23	39
Certificates of deposit/time deposits	50	37	29	15	50	38
Supranational/foreign	34	83			34	83
Other			15	23		
Commingled funds:						
Money market funds	1	1	1	1	1	1

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, 2009 and 2008, 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	
	2009	2008	2009	2008	2009	2008
Other asset-backed securities	\$ 541,202	\$ 994,968	\$ 2,000	\$ 2,250	\$ 2,382,262	\$ 3,472,835
Variable-rate investments	314,892	915,801			1,386,091	3,230,422
Campus foundations' share	(63,418)	(112,157)	63,418	112,157		
Total	\$792,676	\$1,798,612	\$65,418	\$114,407	\$3,768,353	\$6,703,257

At June 30, 2009 and 2008, the weighted average maturity expressed in days for asset-backed securities was 23 days and 58 days, respectively, and for variable-rate investments was 41 days and 22 days, respectively.

Foreign Currency Risk

The University's and 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 \$937.2 million and \$790.4 million at June 30, 2009 and 2008, 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, 2009 and 2008, respectively, is as follows:

(in thousands of dollars)

	INVESTMENTS AT FAIR VALUE		EFFECTIVE DURATION	
	2009	2008	2009	2008
Cash	\$ (7,131)	\$ 4,001	0.0	0.0
U.S. government guaranteed:				
U.S. government-backed-asset-backed securities	25,218	29,206	3.2	3.5
Other U.S. dollar denominated:				
Corporate-asset-backed securities	120,509	164,650	2.1	1.6
U.S. agencies-asset-backed securities	437,906	350,839	2.6	3.8
Commingled funds-money market funds	12,002	20,266	0.0	0.0
Total	\$588,504	\$568,962		

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 \$62.6 million and \$84.7 million at June 30, 2009 and 2008, 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 \$58.3 million and \$77.9 million at June 30, 2009 and 2008, 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 \$4.3 million and \$6.8 million at June 30, 2009 and 2008, respectively.

Capital Projects

Investments held by trustees to be used for capital projects totaled \$284.1 million and \$135.5 million at June 30, 2009 and 2008, 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 \$119.8 million and \$120.2 million at June 30, 2009 and 2008, respectively.

In addition, proceeds from the sale of bonds and certain University funds are held by trustees to be used for financing other capital projects. The fair value of these investments was \$164.3 million and \$15.3 million at June 30, 2009 and 2008, 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, 2009 and 2008 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTERS	INVESTMENT INCOME	OTHER	TOTAL	
<i>At June 30, 2009</i>						
Accounts receivable	\$ 582,211	\$ 1,201,424	\$ 93,915	\$ 1,061,832	\$ 2,939,382	\$ 6,506
Allowance for uncollectible amounts	(2,648)	(200,412)		(53,847)	(256,907)	
Accounts receivable, net	\$579,563	\$1,001,012	\$93,915	\$1,007,985	\$2,682,475	\$ 6,506
<i>At June 30, 2008</i>						
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

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 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, 2009 and 2008:

(in thousands of dollars)

	2009	2008
Student tuition and fees	\$ (2,548)	\$ (370)
Grants and contracts:		
Federal	(772)	(366)
State	(583)	(789)
Private	(3,341)	(135)
Local	(76)	(48)
Medical centers	(164,010)	(118,939)
Educational activities	(8,108)	(13,830)
Auxiliary enterprises	(771)	97
Other operating revenues	191	108

Retirement System Contribution

The state of California agreed to make contributions related to certain prior years to the University for UCRP in annual installments over 30 years. During the years ended June 30, 2009 and 2008, under the terms of these agreements, the state of California contributed \$11.3 million each year, including interest at rates ranging from 8.0 percent to 8.5 percent. At June 30, 2009 and 2008, the remaining amounts owed to UCRP by the state were \$57.3 million and \$63.3 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 UCRP.

6. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2009 and 2008 is summarized as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2009	2008	2009	2008
Total pledges receivable outstanding	\$102,649	\$ 116,287	\$ 534,752	\$ 516,058
Less: Unamortized discount to present value	(4,537)	(5,335)	(96,006)	(75,719)
Allowance for uncollectible pledges	(5,084)	(4,794)	(36,975)	(19,594)
Total pledges receivable, net	93,028	106,158	401,771	420,745
Less: Current portion of pledges receivable	(48,213)	(55,759)	(131,352)	(88,942)
Noncurrent portion of pledges receivable	\$ 44,815	\$ 50,399	\$270,419	\$331,803

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2009 and thereafter are as follows:

(in thousands of dollars)

Year Ending June 30	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	2010	\$ 51,550
2011	21,899	94,884
2012	14,035	50,455
2013	6,124	33,532
2014	2,591	19,719
2015-2019	6,450	23,247
Beyond 2019		163,736
Total payments on pledges receivable	\$102,649	\$534,752

Adjustments to the allowance for doubtful accounts associated with pledges have either increased or (decreased) the following revenues for the years ended June 30, 2009 and 2008:

(in thousands of dollars)

	2009	2008
Private gifts	\$(4,984)	\$149
Capital gifts and grants	(9)	34

7. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2009 and 2008, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		
	CURRENT	NOTES	MORTGAGES	TOTAL	CURRENT	NONCURRENT	TOTAL
<i>At June 30, 2009</i>							
Notes and mortgages receivable	\$ 34,113	\$ 284,190	\$ 28,068	\$ 312,258	\$ 16	\$ 486	\$ 502
Allowance for uncollectible amounts	(4,515)	(13,599)	(143)	(13,742)			
Notes and mortgages receivable, net	\$29,598	\$270,591	\$27,925	\$298,516	\$16	\$486	\$502

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

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, 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 LBNL, 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, 2009 and 2008 are as follows:

(in thousands of dollars)

	2009	2008
Vendor and employee-related operating costs	\$ 83,212	\$ 66,374
Performance of services and transition costs	12,246	16,178
Current portion of the DOE receivable	\$95,458	\$82,552
Retiree health costs	\$ 66,438	\$ 31,494
Noncurrent portion of the DOE receivable	\$66,438	\$31,494

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, 2009 and June 30, 2008, the University recorded \$15.6 million and \$15.3 million, respectively, as its equity in the current earnings of LANS and received \$14.8 million in cash distributions in both years.

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 year ended June 30, 2009 and the nine-month period ended June 30, 2008, the University recorded \$12.0 million and \$10.0 million, respectively, as its equity in the current earnings of LLNS and received \$13.8 million and \$5.5 million in cash distributions, respectively.

9. CAPITAL ASSETS

The University's capital asset activity for the years ended June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

	2007	ADDITIONS	DISPOSALS	2008	ADDITIONS	DISPOSALS	2009
ORIGINAL COST							
Land	\$ 615,015	\$ 51,681	\$ (2,390)	\$ 664,306	\$ 31,335	\$ (1)	\$ 695,640
Infrastructure	426,179	28,284	(336)	454,127	33,876	(2,727)	485,276
Buildings and improvements	17,125,032	2,719,711	(33,876)	19,810,867	2,287,629	(13,189)	22,085,307
Equipment	4,503,537	490,571	(296,124)	4,697,984	519,326	(286,373)	4,930,937
Libraries and collections	3,045,510	135,222		3,180,732	138,995	(12,028)	3,307,699
Special collections	266,153	18,722		284,875	24,015	(1,753)	307,137
Construction in progress	3,836,078	(835,527)		3,000,551	(125,668)		2,874,883
Capital assets, at original cost	\$29,817,504	\$2,608,664	\$(332,726)	\$32,093,442	\$2,909,508	\$(316,071)	\$34,686,879
ACCUMULATED DEPRECIATION AND AMORTIZATION							
	2007	DEPRECIATION AND AMORTIZATION	DISPOSALS	2008	DEPRECIATION AND AMORTIZATION	DISPOSALS	2009
Infrastructure	\$ 184,810	\$ 15,895	\$ (397)	\$ 200,308	\$ 16,058	\$ (2,130)	\$ 214,236
Buildings and improvements	6,417,727	581,528	(19,301)	6,979,954	669,466	(7,371)	7,642,049
Equipment	2,972,005	404,223	(285,866)	3,090,362	402,562	(267,272)	3,225,652
Libraries and collections	2,137,630	91,974		2,229,604	109,318	(10,895)	2,328,027
Accumulated depreciation and amortization	\$11,712,172	\$1,093,620	\$(305,564)	\$12,500,228	\$1,197,404	\$(287,668)	\$13,409,964
Capital assets, net	\$18,105,332			\$19,593,214			\$21,276,915

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 UCRP by the state of California and accrued interest, at June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	2009		2008		2009		2008	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Self-insurance programs	\$ 163,090	<u>\$ 434,924</u>	\$ 147,394	<u>\$ 449,347</u>				
Obligations under life income agreements	876	<u>\$ 28,359</u>	916	<u>\$ 31,074</u>	\$ 18,488	<u>\$ 142,740</u>	\$ 23,688	<u>\$ 156,911</u>
Other liabilities:								
Compensated absences	416,631	\$ 219,820	380,543	\$ 208,763				
UCRP		50,801		57,303				
Accrued interest	62,055		60,637					
Other	197,789	137,197	249,799	140,530	709	\$ 13,532	851	\$ 14,134
Total	\$ 840,441	\$ 407,818	\$ 839,289	\$ 406,596	\$ 19,197	\$ 13,532	\$ 24,539	\$ 14,134

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, 2009 and 2008 are as follows:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	GENERAL LIABILITY	TOTAL
<i>Year Ended June 30, 2009</i>					
Liabilities at June 30, 2008	\$ 188,660	\$ 322,308	\$ 6,773	\$ 79,000	\$ 596,741
Claims incurred and changes in estimates	39,675	56,735	49,898	43,344	189,652
Claim payments	(41,799)	(70,724)	(46,881)	(28,975)	(188,379)
Liabilities at June 30, 2009	\$ 186,536	\$ 308,319	\$ 9,790	\$ 93,369	\$ 598,014
Discount rate	5.5%	5.0%	Undiscounted	4.5%	
<i>Year Ended June 30, 2008</i>					
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	204,282
Claim payments	(33,719)	(71,613)	(36,427)	(25,363)	(167,122)
Liabilities at June 30, 2008	\$ 188,660	\$ 322,308	\$ 6,773	\$ 79,000	\$ 596,741
Discount rate	5.5%	5.0%	Undiscounted	5.0%	

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, 2009 and 2008 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	ANNUITIES	LIFE BENEFICIARIES	ANNUITIES	LIFE BENEFICIARIES
<i>Year Ended June 30, 2009</i>				
Current portion at June 30, 2008	\$ 403	\$ 513	\$ 7,490	\$ 16,198
Reclassification from noncurrent	1,761	1,636	6,480	11,382
Payments to beneficiaries	(1,719)	(1,718)	(7,346)	(15,716)
Current portion at June 30, 2009	\$ 445	\$ 431	\$ 6,624	\$ 11,864
Noncurrent portion at June 30, 2008	\$ 10,543	\$ 20,531	\$ 48,679	\$ 108,232
New obligations to beneficiaries and change in liability, net	3,320	(2,638)	11,777	(8,086)
Reclassification to current	(1,761)	(1,636)	(6,480)	(11,382)
Noncurrent portion at June 30, 2009	\$12,102	\$16,257	\$53,976	\$ 88,764
<i>Year Ended June 30, 2008</i>				
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 and change in liability, net	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

Other Noncurrent Liabilities

Changes in other noncurrent liabilities for the years ended June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	COMPENSATED ABSENCES	UCRP	POLLUTION REMEDIATION	OTHER	TOTAL	
<i>Year Ended June 30, 2009</i>						
Liabilities at June 30, 2008	\$ 208,763	\$ 57,303	\$ 42,611	\$ 97,919	\$ 406,596	\$ 14,134
New obligations	398,547		2,055	4,049	404,651	2,280
Reclassification to current	(387,490)	(6,502)	(3,468)	(5,969)	(403,429)	(2,882)
Liabilities at June 30, 2009	\$219,820	\$50,801	\$41,198	\$95,999	\$407,818	\$13,532
<i>Year Ended June 30, 2008</i>						
Liabilities at June 30, 2007	\$ 202,606	\$ 63,316	\$ 41,382	\$ 85,861	\$ 393,165	\$ 34,488
New obligations	354,202		2,664	23,675	380,541	(17,464)
Reclassification to current	(348,045)	(6,013)	(1,435)	(11,617)	(367,110)	(2,890)
Liabilities at June 30, 2008	\$208,763	\$57,303	\$42,611	\$ 97,919	\$406,596	\$14,134

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 employees' salaries.

Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated the University is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost or recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2009 reducing the pollution remediation liability.

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, 2009 and 2008 is as follows:

(in thousands of dollars)

	WEIGHTED AVERAGE INTEREST RATE	INTEREST RATE RANGE	MATURITY YEARS	2009	2008
INTERIM FINANCING:					
Commercial paper		0.2–0.5%	2009	\$ 665,525	\$ 550,000
LONG-TERM FINANCING:					
University of California General Revenue Bonds	4.9%	1.6–5.8%	2010–2040	4,528,790	3,839,995
University of California Limited Project Revenue Bonds	4.9%	3.0–5.0%	2010–2041	1,380,840	1,397,200
University of California Multiple Purpose Projects Revenue Bonds	4.9%	3.0–5.8%	2009–2027	187,505	263,455
University of California Medical Center Pooled Revenue Bonds	4.6%	2.5–5.3%	2010–2047	1,039,280	1,054,910
University of California Medical Center Revenue Bonds	5.2%	3.0–5.5%	2009–2039	137,090	142,905
University of California Research Facilities Revenue Bonds					17,775
Adjusted by: Unamortized deferred financing costs				(77,071)	(89,396)
Unamortized bond premium				190,113	181,590
University of California revenue bonds	4.9%			7,386,547	6,808,434
Certificates of participation	4.0%	4.0%	2010	975	4,445
Capital lease obligations		0.0–10.0%	2009–2034	2,374,908	2,242,549
Other University borrowings		Various	2010–2024	230,973	309,704
Student housing LLC revenue bonds, net	5.6%	4.0–6.0%	2010–2040	330,542	109,850
Total outstanding debt				10,989,470	10,024,982
Less: Commercial paper				(665,525)	(550,000)
Current portion of outstanding debt				(466,905)	(546,461)
Noncurrent portion of outstanding debt				\$ 9,857,040	\$ 8,928,521

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, 2009 and 2008 was \$445.5 million and \$425.7 million, respectively. Interest expense totaling \$89.6 million and \$25.3 million was capitalized during the years ended June 30, 2009 and 2008, respectively. The remaining \$355.9 million in 2009 and \$400.4 million in 2008 are reported as interest expense in the statement of revenues, expenses and changes in net assets. Investment income totaling \$2.8 million and \$10.0 million was capitalized during the years ended June 30, 2009 and 2008, 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, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASE OBLIGATIONS	OTHER UNIVERSITY BORROWINGS	STUDENT HOUSING LLC REVENUE BONDS	TOTAL
<i>Year Ended June 30, 2009</i>						
Current portion at June 30, 2008	\$ 181,610	\$ 2,175	\$ 143,758	\$ 218,255	\$ 663	\$ 546,461
Reclassification from noncurrent	258,674	2,270	146,767	90,080	907	498,698
Refinancing or prepayment of outstanding debt	(60,885)	(1,295)		(147,970)		(210,150)
Scheduled principal payments	(176,070)	(2,175)	(149,984)	(33,765)	(846)	(362,840)
Amortization of bond premium	(13,393)				(80)	(13,473)
Amortization of deferred financing costs	7,946				263	8,209
Current portion at June 30, 2009	\$ 197,882	\$ 975	\$ 140,541	\$126,600	\$ 907	\$ 466,905
<i>Year Ended June 30, 2008</i>						
Noncurrent portion at June 30, 2008	\$ 6,626,824	\$ 2,270	\$ 2,098,791	\$ 91,449	\$ 109,187	\$ 8,928,521
New obligations	794,220		282,343	103,004	220,915	1,400,482
Bond premium	21,916				440	22,356
Deferred financing costs	4,379					4,379
Reclassification to current	(258,674)	(2,270)	(146,767)	(90,080)	(907)	(498,698)
Noncurrent portion at June 30, 2009	\$7,188,665	\$ -	\$2,234,367	\$104,373	\$329,635	\$9,857,040
<i>Year Ended June 30, 2008</i>						
Current portion at June 30, 2007	\$ 160,763	\$ 4,020	\$ 125,321	\$ 339,211	\$ 398	\$ 629,713
Reclassification from noncurrent	690,832	2,175	146,571	310,455	662	1,150,695
Refinancing or prepayment of outstanding debt	(512,465)			(357,529)		(869,994)
Scheduled principal payments	(152,780)	(4,020)	(128,134)	(73,882)	(580)	(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	\$218,255	\$ 663	\$ 546,461
<i>Year Ended June 30, 2007</i>						
Noncurrent portion at June 30, 2007	\$ 6,113,399	\$ 4,445	\$ 1,884,177	\$ 72,147	\$ 109,849	\$ 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)	(310,455)	(662)	(1,150,695)
Noncurrent portion at June 30, 2008	\$6,626,824	\$2,270	\$2,098,791	\$ 91,449	\$109,187	\$8,928,521

Commercial Paper

The University has available a commercial paper program with tax-exempt and taxable components. The program's liquidity is supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitute limited obligations of the University. There is no encumbrance, mortgage or other pledge of property securing commercial paper and the paper does not constitute general obligations of the University.

Commercial paper outstanding, including interest rates, at June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

	2009		2008	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING
Tax-exempt	0.2–0.5%	\$488,995	1.2–1.9%	\$430,000
Taxable	0.3–0.4%	176,530	2.2–2.3%	120,000
Total outstanding		\$665,525		\$550,000

In July 2008, The Regents authorized an increase in the University's Commercial Paper Program from \$550.0 million 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 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, 2009 and 2008 were \$7.05 billion and \$6.72 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, 2009 and 2008 were \$349.6 million and \$337.2 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, 2009 and 2008 were \$471.8 million and \$491.9 million, respectively.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical center facilities 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, 2009 and 2008 were \$5.57 billion and \$4.98 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 Revenue 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.

2009 Activity

In March 2009, General Revenue Bonds totaling \$794.2 million were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of \$21.9 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of \$474.3 million. Proceeds were also used to refund \$45.8 million of outstanding Multiple Purpose Projects Revenue Bonds, \$15.1 million of Research Facilities Revenue Bonds and \$1.3 million of certificates of participation. The bonds mature at various dates through 2039 and have a weighted average interest rate of 5.2 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refunding resulted in deferred financing costs of \$1.6 million that will be amortized as interest expense over the remaining life of the refunded bonds. Aggregate debt service payments were decreased by \$308 thousand over the term of the bonds and the University was able to obtain an economic gain of \$2.1 million.

Subsequent Event

In August 2009, General Revenue Bonds totaling \$1.32 billion, including \$1.02 billion of taxable "Build America Bonds" and \$300.6 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of \$20.0 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of \$397.9 million. The bonds mature at various dates through 2043. The taxable bonds have a stated weighted average interest rate of 5.9 percent and a net weighted average interest rate of 3.8 percent after the expected cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the taxable bonds. The tax-exempt bonds have a weighted average interest rate of 5.1 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

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 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, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans totaling \$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, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans 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.

Interest Rate Swap Agreements

Objectives. 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. Under each of the swap agreements, the University pays the swap counterparties a fixed interest rate payment and receives a variable rate interest rate payment that effectively changes the University's variable interest rate bonds to synthetic fixed rate bonds.

Terms. 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.

The terms of the outstanding swaps and their fair values at June 30, 2009 are as follows:

(in thousands of dollars)

TYPE	NOTIONAL AMOUNT	EFFECTIVE DATE	MATURITY DATE	TERMS	FAIR VALUE	COUNTERPARTY CREDIT RATING
Pay fixed; receive variable	\$ 91,215	2007	2032	Pay 3.5897%; receive 58% of 1-Month LIBOR* + 0.48%	\$ (8,173)	A2 / A
Pay fixed; receive variable	189,775	2008	2047	Pay 4.6873%; receive 67% of 3-Month LIBOR* + 0.73%**	(39,931)	Aa1 / A+
Total	\$280,990				\$(48,104)	

* London Interbank Offered Rate (LIBOR)

** Weighted average spread

Fair Value. There is a risk that the fair value of a swap will become negative as a result of market conditions. 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 (paid) or received if the swap agreements were terminated on June 30, 2009.

Credit Risk. Although the University has entered into the interest rate swaps with creditworthy financial institutions, there is credit 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.

There are no collateral requirements related to the swap with the \$91.2 million notional amount. Depending on the fair value related to the swap with the \$189.8 million notional amount, the University may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds \$35.0 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds \$50.0 million. At June 30, 2009, the University had not provided collateral to the counterparty, nor received collateral from the counterparty.

Basis Risk. There is a risk that the basis for the variable payment received will not match the variable payment on the bonds that exposes 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 swap with the \$189.8 million notional amount since the variable rate the University pays to the bond holders matches the variable rate payments received from the swap counterparty.

Termination Risk. There is termination risk for losses in the event of non-performance by counterparties in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, certain swaps may be terminated if credit quality ratings, as issued by Moody's or Standard & Poor's, fall below certain thresholds. For the swap with the \$91.2 notional amount, the termination threshold is reached when credit quality ratings for either the underlying Medical Center Pooled Revenue Bonds or the swap counterparty fall below either Baa2 /BBB. For the swap with the \$189.8 notional amount, the termination threshold is reached when credit quality ratings for the underlying Medical Center Pooled Revenue Bonds fall below Baa3/BBB, or the swap counterparty's ratings fall below Baa1/BBB+. At termination, the University may also owe a termination payment if there is a realized loss based on the fair value of the swap.

The University's counterparty in the interest rate swap agreement with a notional amount of \$189.8 million was Lehman Brothers Special Financing Inc. on June 30, 2008. The guarantor was Lehman Brothers Holdings Inc. In September 2008, Lehman Brothers Holdings Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. In October 2008, Lehman Brothers Special Financing Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, in October 2008, the University terminated its existing swap agreement and substituted a new interest rate swap agreement with a new counterparty with identical economic terms, with the exception of certain additional collateral requirements. In conjunction with the swap termination, the University received \$31.3 million from the new counterparty and made a termination payment of \$25.3 million to Lehman Brothers Special Financing Inc. These payments were recorded as deferred costs of financing and will be amortized as interest expense over the term of the bonds.

The University's counterparty in the interest rate swap agreement with a notional amount of \$91.2 million was Merrill Lynch Capital Services, Inc. on June 30, 2008. In January 2009, Bank of America Corporation completed its acquisition of Merrill Lynch & Co.

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, 2009, 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		
<i>Year Ending June 30</i>				
2010	\$ 2,605	\$ 2,615	\$ 9,042	\$ 14,262
2011	2,695	2,611	8,965	14,271
2012	2,800	2,608	8,886	14,294
2013	2,895	2,604	8,804	14,303
2014	3,000	2,600	8,719	14,319
2015–2019	16,735	12,934	42,201	71,870
2020–2024	26,895	12,771	39,442	79,108
2025–2029	44,065	11,790	33,952	89,807
2030–2034	41,725	10,283	26,682	78,690
2035–2039	31,580	8,494	21,091	61,165
2040–2044	61,605	5,651	13,857	81,113
2045–2047	44,390	1,246	3,028	48,664
Total	\$280,990	\$76,207	\$224,669	\$581,866

Certificates of Participation

Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are collateralized by buildings and equipment. A portion of the rental payments is provided to the University by a state of California financing appropriation of \$4.5 million and \$3.8 million for the years ended June 30, 2009 and 2008, 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 \$206.8 million and \$302.6 million during the years ended June 30, 2009 and 2008, respectively, to finance the construction of various University projects.

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, 2009 and 2008 was \$156.6 million and \$160.0 million, respectively. The scheduled principal and interest, including accrued interest, reported in the University's financial statements for the years ended June 30, 2009 and 2008 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)

	2009	2008
Capital lease principal	\$ 96,658	\$ 77,987
Capital lease interest	106,166	88,983
Total	\$202,824	\$166,970

Capital leases entered into with other lessors, typically for equipment, totaled \$76.2 million and \$58.6 million for the years ended June 30, 2009 and 2008, 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 \$1.07 billion at June 30, 2009. Outstanding borrowings under these bank lines totaled \$118.0 million and \$115.3 million at June 30, 2009 and 2008, 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. There were no outstanding interim loans at June 30, 2009. 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 at June 30, 2008.

Student Housing LLC Revenue Bonds

The University has entered into ground leases with a legally separate, non-profit corporation that develops and owns student housing projects and related amenities and improvements 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.

In July 2008, 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 a new student housing project and related amenities and improvements. 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, 2009 and thereafter are as follows:

(in thousands of dollars)

	COMMERCIAL PAPER	UNIVERSITY REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASES		OTHER UNIVERSITY BORROWINGS	STUDENT HOUSING LLC REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
				STATE	OTHER					
<i>Year Ending June 30</i>										
2010	\$ 665,715	\$ 546,074	\$ 1,014	\$ 197,284	\$ 57,483	\$ 132,069	\$ 19,549	\$ 1,619,188	\$ 1,127,705	\$ 491,483
2011		551,607		199,291	48,963	54,610	19,762	874,233	404,367	469,866
2012		561,036		199,260	38,927	23,081	22,340	844,644	391,514	453,130
2013		559,163		199,319	28,905	16,314	21,589	825,290	389,251	436,039
2014		557,236		199,233	62,429	7,278	22,280	848,456	431,810	416,646
2015–2019		2,609,443		869,739	16,829	10,102	118,619	3,624,732	1,817,373	1,807,359
2020–2024		2,340,280		721,523	3,490	816	120,019	3,186,128	1,830,201	1,355,927
2025–2029		1,984,172		485,428	2,295		120,030	2,591,925	1,661,855	930,070
2030–2034		1,651,555		237,091			120,022	2,008,668	1,469,070	539,598
2035–2039		1,114,228					112,474	1,226,702	1,006,000	220,702
2040–2044		273,749					16,446	290,195	236,335	53,860
2045–2047		124,156						124,156	113,565	10,591
Total future debt service	665,715	12,872,699	1,014	3,308,168	259,321	244,270	713,130	18,064,317	\$10,879,046	\$7,185,271
Less: Interest component of future payments	(190)	(5,599,194)	(39)	(1,162,303)	(30,278)	(13,297)	(379,970)	(7,185,271)		
Principal portion of future payments	665,525	7,273,505	975	2,145,865	229,043	230,973	333,160	10,879,046		
Adjusted by:										
Unamortized deferred financing costs		(77,071)					(5,364)	(82,435)		
Unamortized bond premium		190,113					2,746	192,859		
Total debt	\$665,525	\$ 7,386,547	\$ 975	\$2,145,865	\$229,043	\$230,973	\$330,542	\$10,989,470		

Long-term debt does not include \$1.07 billion and \$1.39 billion of defeased liabilities at June 30, 2009 and 2008, 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 UCRS. 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 four defined contribution plans with options to participate in internally and externally managed investment portfolios generally funded with employee non-elective and elective contributions; and the California Public Employees' Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS-VERIP), a defined benefit plan for University employees who were members of PERS who elected early retirement. The Regents has the authority to establish and amend the benefit plans.

Condensed financial information related to each plan in UCRS for the years ended June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN		UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM		UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PLAN		TOTAL	
	2009	2008	2009	2008	2009	2008	2009	2008
CONDENSED STATEMENT OF PLANS' FIDUCIARY NET ASSETS								
Investments at fair value	\$ 32,709,694	\$ 42,092,691	\$ 9,585,015	\$ 10,362,657	\$ 58,014	\$ 76,821	\$ 42,352,723	\$ 52,532,169
Participants' interest in mutual funds			2,923,695	3,772,901			2,923,695	3,772,901
Investment of cash collateral	6,596,311	7,985,216	3,742,295	4,162,266	11,679	14,590	10,350,285	12,162,072
Other assets	818,983	742,520	143,069	145,543	1,260	1,109	963,312	889,172
Total assets	40,124,988	50,820,427	16,394,074	18,443,367	70,953	92,520	56,590,015	69,356,314
Collateral held for securities lending	6,619,824	8,028,770	3,755,636	4,180,415	11,721	14,669	10,387,181	12,223,854
Other liabilities	1,246,622	768,495	155,387	178,908	2,291	1,515	1,404,300	948,918
Total liabilities	7,866,446	8,797,265	3,911,023	4,359,323	14,012	16,184	11,791,481	13,172,772
Net assets held in trust	\$32,258,542	\$42,023,162	\$12,483,051	\$14,084,044	\$ 56,941	\$76,336	\$44,798,534	\$56,183,542
CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET ASSETS								
Contributions	\$ 1,754	\$ 4,048	\$ 927,230	\$ 1,033,850			\$ 928,984	\$ 1,037,898
Net depreciation in fair value of investments	(9,022,624)	(3,996,828)	(2,285,781)	(975,920)	\$ (16,364)	\$ (7,207)	(11,324,769)	(4,979,955)
Investment and other income, net	1,117,720	1,403,039	392,415	482,030	1,966	2,515	1,512,101	1,887,584
Total additions (reductions)	(7,903,150)	(2,589,741)	(966,136)	539,960	(14,398)	(4,692)	(8,883,684)	(2,054,473)
Benefit payment and participant withdrawals	1,829,017	1,888,679	630,889	910,365	4,988	5,114	2,464,894	2,804,158
Plan expense (surplus)	32,453	36,557	3,968	(969)	9	7	36,430	35,595
Transfer of assets to the LLNS defined benefit plan		1,567,209						1,567,209
Total deductions	1,861,470	3,492,445	634,857	909,396	4,997	5,121	2,501,324	4,406,962
Decrease in net assets held in trust	(9,764,620)	(6,082,186)	(1,600,993)	(369,436)	(19,395)	(9,813)	(11,385,008)	(6,461,435)
Net assets held in trust								
Beginning of year	42,023,162	48,105,348	14,084,044	14,453,480	76,336	86,149	56,183,542	62,644,977
End of year	\$32,258,542	\$42,023,162	\$12,483,051	\$14,084,044	\$ 56,941	\$76,336	\$44,798,534	\$56,183,542

Additional information on the retirement plans can be obtained from the 2008-2009 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Program 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. An employee may also become eligible by completing 1,000 hours of service within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined by salary rate, age and years of service credit with certain cost of living adjustments. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a consecutive 36-month period, subject to certain limits imposed under the Internal Revenue Code.

The University's membership in UCRP consisted of the following at July 1, 2008, the date of the latest actuarial valuation:

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	37,722	12,329	50,051
Inactive members entitled to, but not yet receiving benefits	49,599	14,875	64,474
Active members:			
Vested	62,234	1,663	63,897
Nonvested	49,458	670	50,128
Total active members	111,692	2,333	114,025
Total membership	199,013	29,537	228,550

Contribution Policy

The Regents' contribution policy provides for actuarially determined contributions at rates that maintain the Plan on an actuarially sound basis. 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 contributions as a percentage of covered payroll are determined annually pursuant to The Regents' contribution policy and based on recommendations of the consulting actuary. The Regents determines the portion of the total contribution to be made by the University and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. During the years ended June 30, 2009 and 2008, there were no required University or employee contributions other than for service credit buybacks.

LBNL is required to make employer and employee contributions in conformity with The Regents' contribution policy. In addition, under certain circumstances the University makes contributions to UCRP in 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 UCRP, and is reimbursed by the DOE.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits.

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, 2009 and 2008, segregated between the University and the DOE responsibility, is as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS		DOE NATIONAL LABORATORIES		UNIVERSITY OF CALIFORNIA	
	2009	2008	2009	2008	2009	2008
Actuarial valuation date	July 1, 2008	July 1, 2007	July 1, 2008	July 1, 2007	July 1, 2008	July 1, 2007
Annual required contribution	\$ 69,138	\$ 2,622	\$ 12	\$ 11	\$ 69,150	\$ 2,633
Interest on obligation to UCRP						
Adjustment to annual required contribution						
Annual UCRP cost	69,138	2,622	12	11	69,150	2,633
University contributions to UCRP	(442)	(2,622)	(12)	(11)	(454)	(2,633)
Increase in obligation to UCRP	68,696	-	-	-	68,696	-
Obligation to UCRP						
Beginning of year	-	-	-	-	-	-
End of year	\$68,696	\$ -	\$ -	\$ -	\$68,696	\$ -
UCRP benefit reimbursement from the DOE during the year			\$ 12	\$ 11	\$ 12	\$ 11

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, 2009 and the preceding years are as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Annual UCRP benefit cost:			
June 30, 2009	\$ 69,138	\$ 12	\$ 69,150
June 30, 2008	2,622	11	2,633
June 30, 2007	6,359	17,575	23,934
Percentage of annual cost contributed:			
June 30, 2009	0.6%	100.0%	0.7%
June 30, 2008	100.0%	100.0%	100.0%
June 30, 2007	100.0%	100.0%	100.0%
Net obligation to UCRP:			
June 30, 2009	\$ 68,696	\$ -	\$ 68,696
June 30, 2008	-	-	-
June 30, 2007	-	-	-

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

The funded status of UCRP as of July 1, 2008 was as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Actuarial value of plan assets	\$ 35,496,354	\$ 8,231,167	\$ 43,727,521
Actuarial accrued liability	(34,340,516)	(8,127,226)	(42,467,742)
Excess actuarial value of assets	\$ 1,155,838	\$ 103,941	\$ 1,259,779
Funded ratio	103.4%	101.3%	103.0%
Covered payroll	\$ 7,245,447	\$ 204,349	\$ 7,449,796
Excess actuarial value of assets as a percentage of covered payroll	16.0%	50.9%	16.9%

The Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. However, the financial markets, both domestically and internationally, have deteriorated over the past year. The fair value of investments held by UCRP declined subsequent to July 1, 2008. The actuarial value of plan assets also declined. As a result, the funded ratio as of the July 1, 2009 actuarial valuation for the campuses and medical centers as well as the DOE laboratories is expected to be approximately 94.8 percent.

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;
- projected inflation at 3.5 percent;
- 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, 2008 for campuses and medical centers, the DOE national laboratories and total UCRP was one, three and one year, respectively.

University of California Retirement Savings Program

The University of California Retirement Savings Program includes four defined contribution plans providing retirement savings incentives 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 Plans

The Defined Contribution Plan (DC Plan) accepts both after-tax and pretax employee contributions that are fully vested. Pretax contributions are mandatory for all employees who are members of UCRP, as well as Safe Harbor participants—part-time, seasonal and temporary employees who are not covered by Social Security. 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 \$5.3 million and \$5.8 million for the years ended June 30, 2009 and 2008, respectively.

The University established a Supplemental Defined Contribution Plan (SDC Plan) on January 1, 2009 to accept employer contributions in behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. Employer contributions to the SDC Plan were \$42.4 thousand for the year ended June 30, 2009.

Tax Deferred 403(b) Plan

The University's Tax Deferred 403(b) Plan (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 \$2.2 million and \$2.3 million for the years ended June 30, 2009 and 2008, respectively.

457(b) Deferred Compensation Plan

The University's 457(b) Deferred Compensation Plan (457(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. There were no employer contributions to the 457(b) Plan for the years ended June 30, 2009 and 2008.

Participants in the DC Plan, the SDC 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 account balances in certain mutual funds. The participants' interest in 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 PERS in behalf of these UC–PERS members. At July 1, 2008 there are 733 retirees or beneficiaries receiving benefits under this voluntary early retirement program.

The University and the DOE laboratories previously made contributions to the plan sufficient to maintain the promised benefits. 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, 2009, 2008 and 2007.

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 eligible family members (retirees) of the University of California and its affiliates. The Regents has the authority to establish and amend the plans. Additional information can be obtained from the 2008–2009 annual report of the University of California Health and Welfare Program.

Membership in UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at July 1, 2008, the date of the latest actuarial valuation:

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Retirees who are currently receiving benefits	31,473	1,660	33,133
Employees who may receive benefits at retirement	113,083	2,693	115,776
Total membership	144,556	4,353	148,909

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 toward 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. Contributions toward wellness benefits are made by the University. 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 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

The University's retiree health benefit expense is independently calculated for the campuses and medical centers and LLNL 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 years ended June 30, 2009 and 2008, segregated between the University and the DOE responsibility, is as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS		LLNL		UNIVERSITY OF CALIFORNIA	
	2009	2008	2009	2008	2009	2008
Actuarial valuation date	July 1, 2008	July 1, 2007	July 1, 2008	July 1, 2007	July 1, 2008	July 1, 2007
Annual required contribution	\$ 1,550,432	\$ 1,355,362	\$ 50,031	\$ 44,426	\$ 1,600,463	\$ 1,399,788
Interest on obligations for retiree health benefits	59,770		1,732		61,502	
Adjustment to annual required contribution	(108,265)		(3,138)		(111,403)	
Annual retiree health benefit cost	1,501,937	1,355,362	48,625	44,426	1,550,562	1,399,788
University contributions:						
To UCRHBT	(234,428)	(225,066)			(234,428)	(225,066)
To healthcare insurers and administrators			(11,441)	(10,548)	(11,441)	(10,548)
Implicit subsidy	(44,079)	(43,036)	(2,240)	(2,384)	(46,319)	(45,420)
Total contributions	(278,507)	(268,102)	(13,681)	(12,932)	(292,188)	(281,034)
Increase in obligations for retiree health benefits	1,223,430	1,087,260	34,944	31,494	1,258,374	1,118,754
Obligations for retiree health benefits						
Beginning of year	1,087,260		31,494		1,118,754	
End of year	\$2,310,690	\$1,087,260	\$ 66,438	\$ 31,494	\$2,377,128	\$1,118,754
Retiree health care reimbursement from the DOE during the year			\$ 11,441	\$ 10,548	\$ 11,441	\$ 10,548
DOE receivable for obligations for retiree health benefits						
Noncurrent			\$ 66,438	\$ 31,494	\$ 66,438	\$ 31,494
Total			\$ 66,438	\$ 31,494	\$ 66,438	\$ 31,494

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 had 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 years ended June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Annual retiree health benefit cost:			
June 30, 2009	\$ 1,501,937	\$ 48,625	\$ 1,550,562
June 30, 2008	1,355,362	44,426	1,399,788
Percentage of annual cost contributed:			
June 30, 2009	18.5%	28.1%	18.8%
June 30, 2008	19.8%	29.1%	20.1%
Net obligation to the health benefit plan:			
June 30, 2009	\$ 2,310,690	\$ 66,438	\$ 2,377,128
June 30, 2008	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, 2008 was as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Actuarial value of plan assets	\$ 51,221	\$ -	\$ 51,221
Actuarial accrued liability	(13,302,506)	(497,743)	(13,800,249)
Unfunded actuarial accrued liability	\$(13,251,285)	\$(497,743)	\$(13,749,028)
Value of the implicit subsidy included in the actuarial accrued liability	\$ 1,940,306	\$ 76,095	\$ 2,016,401
Funded ratio	0.4%	0.0%	0.4%
Covered payroll	\$ 7,245,447	\$ 204,349	\$ 7,449,796
Unfunded actuarial accrued liability as a percentage of covered payroll	(182.9%)	(243.6%)	(184.6%)

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, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
<i>At June 30, 2009</i>				
Endowments	\$ 940,249	\$ 1,180,119	\$ 26,143	\$ 2,146,511
Funds functioning as endowments		1,689,383	1,084,511	2,773,894
Annuity and life income	6,786	10,292		17,078
Gifts		909,590	11,429	921,019
University endowments and gifts	\$947,035	\$3,789,384	\$1,122,083	\$5,858,502
<i>At June 30, 2008</i>				
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

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 \$1.18 billion and \$1.74 billion at June 30, 2009 and 2008, 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 \$214.6 million and \$210.3 million for the years ended June 30, 2009 and 2008, 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 \$109.6 million and \$89.9 million for the years ended June 30, 2009 and 2008, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was \$520.5 million and \$497.5 million at June 30, 2009 and 2008, 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, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
<i>At June 30, 2009</i>				
Endowments	\$ 1,804,815	\$ 394,587		\$ 2,199,402
Funds functioning as endowments		763,272		763,272
Annuity and life income	62,018	63,823		125,841
Gifts		729,974	\$ 11,829	741,803
Campus foundations' endowments and gifts	\$1,866,833	\$1,951,656	\$11,829	\$3,830,318
<i>At June 30, 2008</i>				
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

The campus foundations provided grants to the University's campuses totaling \$444.7 million and \$527.6 million during the years ended June 30, 2009 and 2008, respectively.

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, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
<i>Year Ended June 30, 2009</i>					
Revenue bonds outstanding	\$ 374,865	\$ 62,920	\$ 536,185	\$ 67,165	\$ 135,235
Related debt service payments	\$ 32,085	\$ 2,897	\$ 25,279	\$ 6,610	\$ 7,591
Bonds due serially through	2047	2047	2047	2047	2047
CONDENSED STATEMENT OF NET ASSETS					
Current assets	\$ 345,365	\$ 179,020	\$ 531,474	\$ 325,324	\$ 470,539
Capital assets, net	1,014,077	630,629	1,625,852	450,805	736,367
Other assets	23,195	6,875	29,009	5,958	14,468
Total assets	1,382,637	816,524	2,186,335	782,087	1,221,374
Current liabilities	197,567	95,940	193,061	131,193	188,801
Long-term debt	391,125	89,636	643,731	82,002	245,783
Other noncurrent liabilities					26,032
Total liabilities	588,692	185,576	836,792	213,195	460,616
Invested in capital assets, net of debt	579,838	534,468	1,046,892	320,904	462,741
Restricted	954	6,046	19,427		9,536
Unrestricted	213,153	90,434	283,224	247,988	288,481
Total net assets	\$ 793,945	\$ 630,948	\$ 1,349,543	\$ 568,892	\$ 760,758
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	\$ 1,077,367	\$ 584,337	\$ 1,465,915	\$ 784,457	\$ 1,653,150
Operating expenses	(962,080)	(496,158)	(1,250,009)	(660,358)	(1,484,406)
Depreciation expense	(57,372)	(33,941)	(81,921)	(29,763)	(67,707)
Operating income	57,915	54,238	133,985	94,336	101,037
Nonoperating revenues (expenses)	(2,767)	(1,937)	(18,213)	1,653	(20,954)
Income before other changes in net assets	55,148	52,301	115,772	95,989	80,083
State and federal capital appropriations			110	1,918	
Health systems support	(48,783)	(53,413)	(37,932)	(32,907)	(30,284)
Transfers from University, net	39,261	92,399	40,779	16,627	
Other, including donated assets			40,203	1,325	2,174
Increase in net assets	45,626	91,287	158,932	82,952	51,973
Net assets—June 30, 2008	748,319	539,661	1,190,611	485,940	708,785
Net assets—June 30, 2009	\$ 793,945	\$ 630,948	\$ 1,349,543	\$ 568,892	\$ 760,758
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	\$ 135,522	\$ 84,206	\$ 178,430	\$ 123,096	\$ 145,913
Noncapital financing activities	(47,152)	(53,413)	(43,057)	(32,907)	(30,284)
Capital and related financing activities	(146,493)	(63,780)	(79,227)	(74,150)	(120,680)
Investing activities	4,371	10,386	38,862	2,402	3,735
Net increase (decrease) in cash and cash equivalents	(53,752)	(22,601)	95,008	18,441	(1,316)
Cash and cash equivalents ¹ —June 30, 2008	176,473	95,954	124,596	132,348	128,842
Cash and cash equivalents¹—June 30, 2009	\$ 122,721	\$ 73,353	\$ 219,604	\$ 150,789	\$ 127,526

¹ Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool.

(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 ¹ —June 30, 2007	153,305	100,823	120,978	127,683	182,839
Cash and cash equivalents¹—June 30, 2008	\$ 176,473	\$ 95,954	\$ 124,596	\$132,348	\$ 128,842

¹ Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool.

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 centers' 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, 2009 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, 2009 and 2008 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
<i>Year Ended June 30, 2009</i>					
CONDENSED STATEMENT OF NET ASSETS					
Current assets	\$ 100,253	\$ 132,244	\$ 283,698	\$ 332,025	\$ 848,220
Noncurrent assets	876,194	549,041	1,110,560	944,953	3,480,748
Total assets	976,447	681,285	1,394,258	1,276,978	4,328,968
Current liabilities	27,506	13,921	191,977	108,974	342,378
Noncurrent liabilities	66,858	12,733	37,415	39,266	156,272
Total liabilities	94,364	26,654	229,392	148,240	498,650
Restricted	881,312	654,393	1,164,707	1,118,077	3,818,489
Unrestricted	771	238	159	10,661	11,829
Total net assets	\$ 882,083	\$ 654,631	\$ 1,164,866	\$ 1,128,738	\$ 3,830,318
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	\$ 61,111	\$ 121,936	\$ 99,136	\$ 93,818	\$ 376,001
Operating expenses	(81,402)	(98,417)	(153,122)	(125,285)	(458,226)
Operating income (loss)	(20,291)	23,519	(53,986)	(31,467)	(82,225)
Nonoperating expenses	(207,579)	(77,799)	(227,316)	(199,998)	(712,692)
Loss before other changes in net assets	(227,870)	(54,280)	(281,302)	(231,465)	(794,917)
Permanent endowments	49,922	18,920	45,297	40,265	154,404
Decrease in net assets	(177,948)	(35,360)	(236,005)	(191,200)	(640,513)
Net assets—June 30, 2008	1,060,031	689,991	1,400,871	1,319,938	4,470,831
Net assets—June 30, 2009	\$ 882,083	\$ 654,631	\$ 1,164,866	\$ 1,128,738	\$ 3,830,318
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	\$ (20,688)	\$ 22,042	\$ (54,830)	\$ (37,275)	\$ (90,751)
Noncapital financing activities	45,836	17,740	45,297	38,685	147,558
Investing activities	(25,966)	(17,202)	10,592	8,325	(24,251)
Net increase (decrease) in cash and cash equivalents	(818)	22,580	1,059	9,735	32,556
Cash and cash equivalents—June 30, 2008	4,807	77,036	720	68,097	150,660
Cash and cash equivalents—June 30, 2009	\$ 3,989	\$ 99,616	\$ 1,779	\$ 77,832	\$ 183,216

(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

17. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$4.13 billion and \$3.33 billion at June 30, 2009 and 2008, respectively.

The University and 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, 2009 totaled \$3.57 billion; \$429.2 million and \$3.14 billion for the University and UCRS, respectively.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2009 and 2008 were \$162.7 million and \$147.8 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:

<i>(in thousands of dollars)</i>	
	MINIMUM ANNUAL LEASE PAYMENTS
<i>Year Ending June 30</i>	
2010	\$ 90,617
2011	70,304
2012	51,237
2013	36,519
2014	25,997
2015–2019	48,847
2020–2024	9,426
2025–2029	3,884
2030–2034	4,393
2035–2039	5,014
2040	608
Total	\$346,846

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 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, 2008	\$ 43,727,521	\$ 42,467,742	\$ 1,259,779	103.0%	\$ 7,449,796	16.9%
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
Campuses and Medical Centers						
July 1, 2008	35,496,354	34,340,516	1,155,838	103.4	7,245,447	16.0
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
DOE National Laboratories						
July 1, 2008	8,231,167	8,127,226	103,941	101.3	204,349	50.9
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

Factors significantly affecting trends

The Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. However, the financial markets, both domestically and internationally, have deteriorated over the past year. The fair value of investments held by UCRP declined subsequent to July 1, 2008. The actuarial value of plan assets also declined. As a result, the funded ratio as of the July 1, 2009 actuarial valuation for the campuses and medical centers as well as the DOE laboratories is expected to be approximately 94.8 percent.

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 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.

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 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.

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, 2008	\$51,221	\$13,800,249	\$(13,749,028)	0.4%	\$7,449,796	(184.6%)	\$2,016,401
July 1, 2007	None	12,534,468	(12,534,468)	0.0%	6,913,467	(181.3%)	1,867,147
Campuses and Medical Centers							
July 1, 2008	51,221	13,302,506	(13,251,285)	0.4%	7,245,447	(182.9%)	1,940,306
July 1, 2007	None	12,074,689	(12,074,689)	0.0%	6,720,789	(179.7%)	1,792,229
LBNL							
July 1, 2008	None	497,743	(497,743)	0.0%	204,349	(243.6%)	76,095
July 1, 2007	None	459,779	(459,779)	0.0%	192,678	(238.6%)	74,918

CAMPUS FACTS IN BRIEF 2009

	UCB	UCD	UCI	UCLA	UCM	UCR	UCSD	UCSF	UCSB	UCSC	Systemwide Programs and Administration ³
STUDENTS											
Undergraduate fall enrollment	25,151	24,324	22,238	26,536	2,534	15,752	22,518		18,900	15,125	
Graduate fall enrollment	10,258	7,102	5,393	13,114	184	2,327	5,682	4,444	2,968	1,490	
Total fall enrollment	35,409	31,426	27,631	39,650	2,718	18,079	28,200	4,444	21,868	16,615	
University Extension enrollment	28,092	61,463	25,664	89,781		29,530	51,152		5,908	16,191	
DEGREES CONFERRED¹											
Bachelor	6,960	5,785	5,209	7,089	74	3,544	5,328	255	4,977	3,450	
Advanced	3,271	1,773	1,404	4,268	2	597	1,795	542	935	409	
Cumulative	550,208	207,549	129,002	469,054	133	76,172	131,344	46,770	182,330	80,533	
FACULTY AND STAFF (full-time equivalents)	14,444	21,037	12,793	29,203	999	4,848	19,023	18,689	6,230	4,720	2,926
LIBRARY COLLECTIONS⁵ (volumes)	10,441,285	3,681,744	2,622,259	8,393,588	110,602	2,527,607	3,372,785	656,631	2,948,999	1,613,168	
CAMPUS LAND AREA (in acres)	6,679	7,019	1,474	419	7,045	1,913	2,141	255	1,055	6,088	16

CAMPUS FINANCIAL FACTS² (IN THOUSANDS OF DOLLARS)

OPERATING EXPENSES BY FUNCTION

Instruction	\$ 545,062	\$ 559,618	\$ 446,395	\$ 1,117,861	\$ 21,271	\$ 164,933	\$ 474,703	\$ 214,882	\$ 204,167	\$ 126,517	\$ 390,841
Research	481,914	453,416	226,178	635,425	12,891	95,875	609,965	662,229	153,561	111,044	298,106
Public service	60,678	57,391	11,349	91,685	6,247	4,230	16,808	74,517	7,557	15,495	145,164
Academic support	114,608	142,811	125,854	321,369	10,678	40,556	190,073	281,482	39,977	31,641	192,968
Student services	120,831	60,829	58,543	70,056	7,620	41,544	62,338	16,321	68,234	51,513	56,264
Institutional support	131,883	90,322	44,805	144,443	25,400	46,797	121,632	111,018	39,593	36,233	262,403
Operation & maintenance of plant	71,377	89,859	38,053	96,821	11,559	27,795	69,355	55,010	32,203	24,757	47,992
Student financial aid	77,753	51,203	64,346	71,197	(1,279)	39,094	58,932	34,122	48,804	12,979	1,323
Medical centers		976,359	498,903	1,224,887			692,853	1,519,637			313,073
Auxiliary enterprises	118,249	89,997	116,385	243,858	7,262	50,440	110,933	33,199	75,167	83,615	40,547
Depreciation & amortization	144,210	174,637	116,691	239,280	17,830	52,013	174,200	154,093	67,600	45,147	11,703
Other ⁴	21,890	3,526	6,312	33,097	18,780	2,120	2,182	8,761	9,435	765	(1,592)
Total	\$ 1,888,455	\$ 2,749,968	\$ 1,753,814	\$ 4,289,979	\$ 138,259	\$ 565,397	\$ 2,583,974	\$ 3,165,271	\$ 746,298	\$ 539,706	\$ 1,758,792

GRANTS AND CONTRACTS REVENUE

Federal government	\$ 347,605	\$ 348,357	\$ 219,802	\$ 604,235	\$ 14,853	\$ 89,710	\$ 584,293	\$ 506,352	\$ 140,296	\$ 102,519	\$ 24,775
State government	77,195	106,536	50,818	56,011	25,491	11,707	42,115	58,137	11,175	9,240	60,349
Local government	10,942	12,748	5,025	40,128	266	2,397	11,201	110,986	1,029	339	4,265
Private	174,103	115,524	57,611	168,476	3,634	17,055	175,215	222,400	43,717	31,981	6,971
Total	\$ 609,845	\$ 583,165	\$ 333,256	\$ 868,850	\$ 44,244	\$ 120,869	\$ 812,824	\$ 897,875	\$ 196,217	\$ 144,079	\$ 96,360

UNIVERSITY ENDOWMENTS

Endowments	\$ 1,559,033	\$ 401,579	\$ 45,167	\$ 982,212	\$ 16,251	\$ 32,456	\$ 148,969	\$ 671,904	\$ 66,183	\$ 51,407	\$ 962,322
Annual income distribution	78,045	20,110	2,738	38,589	1,220	1,728	6,139	34,192	3,257	2,343	26,267

CAMPUS FOUNDATIONS' ENDOWMENTS

Endowments	\$ 827,808	\$ 155,855	\$ 161,314	\$ 997,111	\$ 4,361	\$ 67,177	\$ 308,012	\$ 424,820	\$ 98,942	\$ 43,115	
------------	------------	------------	------------	------------	----------	-----------	------------	------------	-----------	-----------	--

CAPITAL ASSETS

Capital assets, at net book value	\$ 2,726,864	\$ 2,857,036	\$ 2,406,782	\$ 4,615,932	\$ 367,179	\$ 953,556	\$ 2,440,284	\$ 2,641,861	\$ 1,237,587	\$ 889,272	\$ 140,562
Capital expenditures	382,480	401,908	415,525	542,218	22,386	94,352	376,460	396,945	106,953	160,487	9,796

¹ As of academic year 2007-08.

² Excludes DOE laboratories.

³ Includes expenses for Systemwide education and research programs, Systemwide support services and administration. Full-time equivalents count, as of fall 2008, includes employees at all campuses involved in systemwide activities, including Agriculture and Natural Resources.

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

⁵ As of June 30, 2008.

THE REGENTS AND OFFICERS OF THE UNIVERSITY OF CALIFORNIA

APPOINTED REGENTS (in order of accession to the Board)

Joanne Corday Kozberg, *Beverly Hills*

Sherry L. Lansing, *Los Angeles*

Odessa P. Johnson, *Modesto*

George M. Marcus, *Palo Alto*

Monica C. Lozano, *Los Angeles*

Norman J. Pattiz, *Culver City*

Richard C. Blum, *San Francisco*

Frederick R. Ruiz, *Dinuba*

Paul D. Wachter, *Santa Monica*

Eddie R. Island, *Santa Monica*

Russell S. Gould, *Sacramento*

Leslie Tang Schilling, *San Francisco*

William C. De La Pena, *Montebello*

Bruce D. Varner, *Riverside*

Bonnie M. Reiss, *Santa Monica*

Hadi Makarechian, *Newport Beach*

George D. Kieffer, *Los Angeles*

Charlene R. Zettel, *Encinitas*

Jesse M. Bernal, *Santa Barbara*

EX OFFICIO REGENTS

Arnold Schwarzenegger, *Governor of California*

John Garamendi, *Lieutenant Governor of California*

Karen Bass, *Speaker of the Assembly*

Jack O'Connell, *State Superintendent of Public Instruction*

Ronald W. Stovitz, *President,
Alumni Associations of the University of California*

Yolanda Nunn Gorman, *Vice President,
Alumni Associations of the University of California*

Mark G. Yudof, *President of the University*

REGENTS DESIGNATE (non-voting)

Rex Hime, *Secretary,
Alumni Associations of the University of California*

Darek A. DeFreece, *Treasurer,
Alumni Associations of the University of California*

Jesse Cheng, *Student Regent Designate*

FACULTY REPRESENTATIVES (non-voting)

Henry Powell, *Chair, Academic Council*

Daniel Simmons, *Vice Chair, Academic Council*

OFFICERS OF THE REGENTS

Arnold Schwarzenegger, *President*

Russell S. Gould, *Chairman*

Sherry L. Lansing, *Vice Chairman*

Sheryl Vacca, *Chief Compliance and Audit Officer*

Marie N. Berggren, *Acting Treasurer*

Charles F. Robinson, *General Counsel*

Diane M. Griffiths, *Secretary and Chief of Staff*

OFFICE OF THE PRESIDENT

Mark G. Yudof, *President of the University*

Lawrence Pitts, *Interim Provost and Executive Vice President—
Academic Affairs*

Bruce B. Darling, *Executive Vice President*

Nathan Brostrom, *Interim Executive Vice President—Business
Operations*

Peter J. Taylor, *Executive Vice President and Chief Financial Officer*

Daniel M. Dooley, *Senior Vice President—External Relations and
Vice President—Agriculture and Natural Resources*

John D. “Jack” Stobo, M.D., *Senior Vice President—Health
Sciences and Services*

Sheryl Vacca, *Senior Vice President and Chief Compliance and
Audit Officer*

Marie N. Berggren, *Chief Investment Officer and Vice President—
Investments*

Charles F. Robinson, *General Counsel and Vice President—
Legal Affairs*

Steven V. W. Beckwith, *Vice President—Research and Graduate
Studies*

Anne C. Broome, *Vice President—Finance*

Dwaine B. Duckett, *Vice President—Human Resources*

Patrick J. Lentz, *Vice President—Budget and Capital Resources*

Judy K. Sakaki, *Vice President—Student Affairs*

CHANCELLORS

Robert J. Birgeneau, *Berkeley*

Linda Katehi, *Davis*

Michael V. Drake, M.D., *Irvine*

Gene D. Block, *Los Angeles*

Sung-Mo “Steve” Kang, *Merced*

Timothy P. White, *Riverside*

Marye Anne Fox, *San Diego*

Susan Desmond-Hellman, M.D., M.P.H., *San Francisco*

Henry T. Yang, *Santa Barbara*

George R. Blumenthal, *Santa Cruz*

INTERIM DIRECTOR OF DOE LABORATORY

A. Paul Alivisatos, *Ernest Orlando Lawrence Berkeley
National Laboratory*

This page left intentionally blank.

This page left intentionally blank.

The University of California

Working to serve California,
the nation and the world
through education, research
and public service

More than 50,720 freshmen and transfer students began a UC education in fall 2008.

More than half of all UC undergraduates receive grants or scholarships. Among the nation's top research universities, UC enrolls the highest proportion of low-income students.

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

UC operates the largest health sciences training program in the nation: 16 professional schools where California's doctors, nurses, dentists, pharmacists and public health professionals are educated.

UC leads all U.S. research universities in the number of patents granted. UC's invention portfolio increased more than 8 percent in 2008 to total 8,953.

More than 1,100 California biotech and R&D companies have benefited from UC research.

The university's five medical centers receive 3.8 million outpatient visits a year, 261,000 emergency room visits and 140,000 inpatient admissions.

More than 100 campus libraries, housing more than 32 million books, are open to the public along with more than 35 museums and galleries.

UC operates California's 4-H program, serving more than 130,000 young people in rural and urban communities.

UC manages a 135,000-acre Natural Reserve System, providing laboratories in the wild for researchers from around the globe.

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





Annual Financial Report 2008-2009
University of California
Financial Management
1111 Franklin Street, 10th Floor
Oakland, CA 94607-5200

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT

THE INDENTURE

The following is a brief summary of certain provisions of the Indenture. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Indenture in its entirety to which reference is made for the detailed provisions thereof.

Definitions

Ancillary Obligations means any Credit Facility, Liquidity Facility or Financial Products Agreement designated in a Supplemental Indenture as an Ancillary Obligation for purposes of the Indenture.

Authorized Denominations means \$5,000 or any integral multiple thereof with respect to 2010 Bonds.

Beneficial Holder or Beneficial Owner means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond, including, without limitation, any Persons holding bonds through nominees or depositories.

Bond Counsel means any attorney at law or firm of attorneys selected by The Regents, of nationally recognized standing in matters pertaining to the validity of and federal tax exemption of interest on obligations issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

Bonds means any or all of The Regents of the University of California General Revenue Bonds authorized under and secured by the Indenture. Serial Bonds shall mean the Bonds, falling due by their terms in specified years, for which no Mandatory Sinking Account Payments are provided. Term Bonds shall mean the Bonds, if any, payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Business Day means any day other than Saturday, Sunday or a day on which banking institutions in Los Angeles or San Francisco, California, or New York, New York, are authorized or required to be closed or a day on which the New York Stock Exchange is closed.

Certificate, Request, Requisition, Statement and Written Order mean, respectively, a written certificate, request, requisition, statement or order signed, in the case of The Regents, in the name of The Regents by the Chairman, the Treasurer or the Associate Treasurer of the Board of Regents, or the President, the Executive Vice President - Chief Financial Officer, the Vice President-Finance or the Executive Director-External Finance of the University of California or such other person as may be designated and authorized to sign for The Regents. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in

a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the provisions of the Indenture, each Certificate shall include the statements provided for in the Indenture.

Code means the Internal Revenue Code of 1986.

Continuing Disclosure Agreement means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the Continuing Disclosure Agreement, dated the date of issuance and delivery of such Series of Bonds, by and between The Regents and the Trustee and Dissemination Agent named therein, as originally executed and as the same may from time to time be amended or supplemented pursuant to its terms.

Costs of Issuance means the costs and expenses incurred by The Regents to effect the authorization, preparation, issuance, sale and delivery of the Bonds, including but not limited to any printing costs, rating agency fees, fees and disbursements of Bond Counsel, fees and expenses of The Regents incurred in connection with issuance of the Bonds, and initial fees and expenses of the Trustee, Liquidity Providers and Credit Providers.

CP Indentures means The Regents Commercial Paper Issuance Certificate, dated as of October 1, 1996, as amended and supplemented from time to time and the Indenture, dated as of November 1, 2008, between The Regents and Deutsche Bank National Trust Company, as it may be from time to time amended or supplemented in accordance with the terms thereof.

Credit Facility means a financial guaranty or municipal bond insurance policy, an irrevocable direct-pay letter of credit, a line of credit, a standby bond purchase agreement, a revolving credit agreement or other credit arrangement obtained by The Regents pursuant to which a Credit Provider provides credit support for all or a portion of a Series of Bonds, as the same may be amended from time to time pursuant to its terms, or any replacement therefor.

Credit Provider means the issuer or provider of a Credit Facility and any successor or successors to such issuer or provider.

Current Subordinate Lien Indebtedness means Indebtedness issued and secured pursuant to the Limited Project Indenture, 1991 Indenture or CP Indentures (or related bank facilities), which is outstanding as of the date of the Indenture.

Debt Service Fund means the fund by that name established pursuant to the Indenture.

Defeasance Obligations means (i) non-callable Investment Securities described in clause (1), (2) or (5) of the definition thereof, (ii) for a particular Series of Bonds, any Investment Securities approved as Defeasance Obligations by the Credit Provider for such Series of Bonds, or (iii) any other investment designated in a Supplemental Indenture as a Defeasance Obligation for purposes of defeasing a Series of Bonds authorized by such Supplemental Indenture.

DTC means The Depository Trust Company, New York, New York.

Event of Default means any of the events specified under the heading “Events of Default” below.

Financial Newspaper or Journal means The Wall Street Journal or The Bond Buyer or any other newspaper or journal containing financial news, printed in the English language, customarily published on each business day and circulated in Los Angeles or San Francisco, California, and selected by the Trustee, in its sole discretion whose decision shall be final and conclusive.

Financial Products Agreement means an interest rate swap, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, however denominated, identified to the Trustee in a Certificate of The Regents as having been entered into with a Qualified Provider not for investment purposes but with respect to Indebtedness (which Indebtedness shall be specifically identified in the Certificate of The Regents) for the purpose of (1) reducing or otherwise managing the risk of interest rate changes or (2) effectively converting interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure.

Fiscal Year means the period beginning on July 1 of each year and ending on the succeeding June 30, or any other twelve-month period thereafter selected and designated as the official fiscal year of The Regents.

General Revenue Fund means the fund by that name established pursuant to the Indenture.

General Revenues means certain operating and non-operating revenues of the University of California as reported in the University’s Financial Report, including (i) gross student tuition and fees; (ii) facilities and administrative cost recovery from contracts and grants; (iii) net sales and service revenues from educational and auxiliary enterprise activities; (iv) other net operating revenues (v) certain other non-operating revenues, including unrestricted investment income; and (vi) any other revenues as may be designated as General Revenues from time to time by a Certificate of The Regents delivered to the Trustee, but excluding (a) appropriations from the State of California (except as permitted under Section 28 of the State Budget Act or other legislative action); (b) moneys which are restricted as to expenditure by a granting agency or donor; (c) gross revenues of the University of California Medical Centers; (d) management fees resulting from the contracts for management of the United States Department of Energy Laboratories; and (e) any revenues which may be excluded from General Revenues from time to time by a Certificate of The Regents delivered to the Trustee.

Holder or Bondholder means the person in whose name a Bond is registered.

Indebtedness means any indebtedness or obligation of The Regents which, in accordance with generally accepted accounting principles for colleges and universities, is classified as a liability on a balance sheet.

Indenture means the Indenture, dated as of September 1, 2003, by and between The Regents and The Bank of New York Mellon Trust Company, N.A., as successor trustee, as

originally executed or as it may from time to time thereafter be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions thereof.

Independent Certified Public Accountant means any certified public accountant or firm of such accountants appointed and paid by The Regents, and who, or each of whom –

- (1) is in fact independent, and not under control of The Regents;
- (2) does not have any substantial interest, direct or indirect, with The Regents; and
- (3) is not connected with The Regents as a member of The Regents, or as an official or employee of The Regents or of the University of California, but who may be regularly retained to make annual or similar audits of any of the books of The Regents.

Information Services means Financial Information, Inc., Daily Called Bond Service; Kenny Information Systems, Called Bond Department; Moody's Investors Service, Information Center; Standard & Poor's Rating Services, Called Bond Record; and any other information service providing information with respect to called bonds as The Regents may designate to the Trustee.

Interest Fund means the fund by that name established pursuant to the Indenture.

Interest Payment Date means with respect to any Series of Bonds the meaning set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Investment Securities means any of the following which at the time are legal investments under the laws of the State of California and the policies of The Regents as filed with the Trustee from time to time for moneys held under the Indenture and then proposed to be invested therein: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or any Federal Reserve Bank) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America or tax-exempt obligations which are rated in the highest rating category of each Rating Agency; (2) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Home Loan Bank System, the Farm Credit System, or any other agency or instrumentality of the United States of America; (3) bonds of the State of California or of any county or city of the State of California for which each Rating Agency is maintaining a rating at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on the Bonds; (4) obligations the interest on which is excluded from gross income for federal income taxation pursuant to the Code and which are rated by each Rating Agency in a rating category at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on the Bonds, or in the highest short term rating category of each Rating Agency; (5) receipts representing direct interests in Investment Securities described in Clause (1) and (2) of this definition; (6) repurchase agreements with any financial institution which is rated by each Rating Agency in a rating category at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on the Bonds, or repurchase agreements fully secured by collateral security described in clauses (1) or (2) of this definition continuously having a market

value at least equal to the amount so invested so long as such underlying obligations or securities are in the possession of the Trustee or the Securities Investors Protection Corporation; (7) interest bearing bankers acceptances and demand or time deposits (including certificates of deposit) in banks (including the Trustee), provided such deposits are either (a) secured at all times, in the manner and to the extent provided by law, by collateral security described in clauses (1) or (2) of this definition of a market value no less than the amount of moneys so invested; or (b) in banks (including the Trustee) having a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000) and whose rating by each Rating Agency, or the rating of its parent holding company, is at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on the Bonds or (c) fully insured by the Federal Deposit Insurance Corporation; (8) commercial paper rated in the highest rating category of each Rating Agency, and issued by corporations organized and operating within the United States and having total assets in excess of Five Hundred Million Dollars (\$500,000,000); (9) collateralized investment agreements or other collateralized contractual arrangements with corporations, financial institutions or national associations within the United States fully secured by collateral security described in Clause (1) or (2) of this definition; or investment agreements or other contractual arrangements with corporations, financial institutions or national associations within the United States, provided that the senior long-term debt of such corporations, institutions or associations is rated in a rating category at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on the Bonds; (10) any money market fund or mutual fund that is comprised of investments described in clauses (1) through (9) of this definition and which fund or investments are continuously rated by each Rating Agency in a rating category at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on the Bonds; and (11) the Short Term Investment Pool of The Regents.

Limited Project Indenture means the Indenture dated as of October 1, 2004 as amended and supplemented, by and between The Regents and The Bank of New York Mellon Trust Company, N.A. as successor trustee to J.P. Morgan Trust Company, National Association, providing for the issuance of The Regents of the University of California Limited Project Revenue Bonds.

Liquidity Facility means an irrevocable direct-pay letter of credit, a line of credit, a standby bond purchase agreement, a revolving credit agreement or other liquidity arrangement obtained by The Regents pursuant to which a Liquidity Provider provides liquidity support with respect to all or a portion of a Series of Bonds, as the same may be amended from time to time pursuant to its terms, or any replacement therefor.

Liquidity Provider means the issuer or provider of a Liquidity Facility and any successor or successors to such issuer or provider.

Mandatory Sinking Account Payment shall mean, with respect to Bonds of any Series and maturity, the amount required by the Indenture or any Supplemental Indenture to be paid by The Regents on any single date for the retirement of Term Bonds of such Series and maturity.

Nineteenth Supplemental Indenture means the Nineteenth Supplemental Indenture, dated as of April 1, 2010, by and between The Regents and The Bank of New York Mellon Trust

Company, N.A. as successor trustee, providing for the issuance of The Regents of the University of California General Revenue Bonds, 2010 Series S.

1991 Indenture means the Indenture dated as of December 1, 1991, as amended and supplemented, by and between The Regents and The Bank of New York Mellon Trust Company, N.A. as successor in interest to BNY Western Trust Company, as trustee, providing for the issuance of The Regents of the University of California Revenue Bonds (1991 Multiple Purpose Projects).

Opinion of Counsel means a written opinion of counsel who is selected by The Regents (including counsel to The Regents) and who is acceptable to the Trustee. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel shall include the statements provided for in the Indenture.

Optional Redemption Account means the account by that name established pursuant to the Indenture.

Outstanding when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of The Regents shall have been discharged in accordance with the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

Parity Lien means any pledge, lien, security interest, encumbrance or charge of any kind on or in any General Revenues which is equal and ratable to the lien of the Indenture on or in such General Revenues.

Person shall mean an individual, a corporation, a partnership, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

Principal Fund means the fund by that name established pursuant to the Indenture.

Qualified Provider means any financial institution or insurance company which is a party to a Financial Products Agreement.

Rating Agency means, on any given date, any nationally recognized rating agency designated by The Regents which then has outstanding a credit rating on the Bonds (or other obligations to which reference is made by the Indenture).

Rebate Fund means the fund by that name established pursuant to the Indenture.

Record Date means with respect to a Series of Bonds the meaning set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Redemption Fund means the fund by that name established pursuant to the Indenture.

Representation Letter means, with respect to any Series of Bonds, the Letter of Representations to The Depository Trust Company, New York, New York, from The Regents and the Trustee.

Responsible Officer of the Trustee means and includes the president, every vice president, every assistant vice president, every trust officer, and every officer and assistant officer of the Trustee other than those specifically above mentioned, to whom any corporate trust matter is referred because of his knowledge of, and familiarity with, a particular subject.

Securities Depositories means: The Depository Trust Company; Midwest Securities Trust Company, Capital Structures Call Notification; Philadelphia Depository Trust Company, Reorganization Division; or such other securities depositories as The Regents may designate.

Security Documents means all of the instruments, documents and agreements which, as of any date, have been executed and are then binding upon The Regents in connection with any Senior Lien, Parity Lien or Subordinate Lien, including without limitation any indenture, trust agreement, loan agreement, credit agreement or security agreement.

Senior Lien means any pledge, lien, security interest, encumbrance or charge of any kind on or in any General Revenues which is senior in priority and superior to the lien of the Indenture on or in such General Revenues.

Series, whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction pursuant to the Indenture or a Supplemental Indenture, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as therein provided.

Sinking Accounts means the accounts in the Principal Fund so designated and established pursuant to the Indenture.

Special Redemption Account means the account by that name established pursuant to the Indenture.

State means the State of California.

Subordinate Lien means any pledge, lien, security interest, encumbrance or charge of any kind on or in any General Revenues which is subordinate to the lien of the Indenture on or in such General Revenues.

Supplemental Indenture or Indenture supplemental thereto means any indenture thereafter duly authorized and entered into between The Regents and the Trustee in accordance with the provisions of the Indenture.

Tax Certificate means the certificate signed by The Regents on the date any Series of Bonds are issued relating to the requirements of the Code.

The Regents means The Regents of the University of California, a corporation organized and existing under and by virtue of Article IX, Section 9, of the Constitution of the State of California.

Trustee means The Bank of New York Mellon Trust Company, N.A. as successor in interest to BNY Western Trust Company, as trustee, in San Francisco, California, as trustee or as authenticating agent or its successor as Trustee as provided in the Indenture.

Twentieth Supplemental Indenture means the Twentieth Supplemental Indenture, dated as of April 1, 2010, by and between The Regents and The Bank of New York Mellon Trust Company, N.A. as successor trustee, providing for the issuance of The Regents of the University of California General Revenue Bonds, 2010 Series T.

2010 Bonds means collectively, The Regents of the University of California General Revenue Bonds, 2010 Series S authorized under and secured by the Indenture and the Nineteenth Supplemental Indenture and The Regents of the University of California General Revenue Bonds, 2010 Series T (Taxable) authorized under and secured by the Indenture and the Twentieth Supplemental Indenture.

Authorization of Bonds

Bonds may be issued under the Indenture from time to time in order to obtain moneys to carry out any lawful purpose of The Regents. The maximum principal amount of Bonds which may be issued under the Indenture is not limited. The Bonds are designated generally as “The Regents of the University of California General Revenue Bonds” with such variations or additions as The Regents may deem appropriate with respect to any Series of Bonds. The Bonds may be issued in such Series as from time to time shall be established and authorized by The Regents, and the Indenture constitutes a continuing agreement with the owners of all the Bonds issued or to be issued and at any time outstanding to secure the full and final payment of the principal of and premium, if any, and the interest on all Bonds which may from time to time be executed and delivered thereunder; subject to the covenants, agreements, provisions and conditions therein contained.

Payment of the Bonds

Payment of the interest on any Bond shall be made to the person whose name appears on the bond registration books of the Trustee as the Holder thereof as of the Record Date preceding each Interest Payment Date, such interest to be paid by check mailed by first class mail on the applicable Interest Payment Date to the Holder at his address as it appears on such registration books; provided that such interest shall be paid by wire transfer to an account in the United States for any Holder of at least \$1,000,000 in aggregate principal amount of Bonds of any Series if the Holder makes a written request to the Trustee on or prior to the close of business on the Record Date preceding any Interest Payment Date specifying the account address.

Any such interest not so punctually paid or duly provided for with respect to any Bond shall forthwith cease to be payable to the Bondholder on such Record Date and shall be paid to the Person in whose name the Bond is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof to be given

to the Holders of such Bonds as set forth in the Supplemental Indenture establishing the terms and provisions of such Bonds or, if not provided therein, notice whereof to be given to the Holders of such Bonds not less than ten (10) days prior to such special record date.

Conditions Precedent to Issuance of Bonds

The Regents may by Supplemental Indenture establish one or more Series of Bonds, payable from General Revenues and secured by the pledge made under the Indenture. The Bonds shall be executed by The Regents for issuance and delivery to the Trustee and thereupon shall be authenticated by the Trustee and delivered to The Regents upon its order, but only upon receipt by the Trustee of the following:

- (a) An original executed copy of the Supplemental Indenture authorizing such Bonds, which Supplemental Indenture shall specify:
 - (i) the purpose for which such Series of Bonds is being issued;
 - (ii) whether such Bonds shall bear interest at a fixed or variable rate, including, but not limited to, an interest rate determined pursuant to an auction procedure;
 - (iii) whether the interest on such Bonds shall be federally taxable or tax-exempt;
 - (iv) the Series of such Bonds, the date or dates, the Interest Payment Dates, the principal payment dates and the maturity date or dates of such Bonds;
 - (v) the manner of dating and numbering such Bonds;
 - (vi) the place or places of payment of the principal or redemption, tender or purchase price, and the manner of payment of interest on, such Bonds;
 - (vii) any redemption, tender or purchase provisions for such Bonds;
 - (viii) the amount and due date of each sinking fund payment, if any, for such Bonds;
 - (ix) the amounts to be deposited in the funds and accounts created and established by the Indenture and the Supplemental Indenture authorizing such Bonds;
 - (x) any other provisions deemed advisable by The Regents that are not in conflict with the provisions of the Indenture;
- (b) An opinion of Bond Counsel, dated the date of delivery thereof, to the effect that:
 - (i) such Supplemental Indenture is a valid and binding obligation of The Regents and
 - (ii) upon the execution, authentication and delivery thereof, such Bonds will be valid and binding obligations of The Regents;

- (c) A Written Order of The Regents as to the delivery of such Bonds; and
- (d) A Certificate of The Regents stating that The Regents is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture.

Notice of Redemption

Except as otherwise provided in a Supplemental Indenture, notice of redemption shall be given by mail not less than thirty (30) days nor more than sixty (60) days prior to the redemption date, to the respective registered owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities, and, if less than all of any such maturity, the distinctive numbers of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and shall also state that on said date there will become due and payable on each of said Bonds the principal thereof or of said specified portion of the principal thereof, in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Pledge

Subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth therein, The Regents pledges to the Trustee to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payment of all amounts due pursuant to Ancillary Obligations, all of the General Revenues, all of the proceeds of the Bonds and any other amounts held in any fund or account established pursuant to the Indenture, excluding the Rebate Fund. Said pledge shall constitute a lien on and security interest in all of the General Revenues, all of the proceeds of the Bonds and any other amounts held in any fund or account established pursuant to the Indenture, excluding the Rebate Fund, and shall attach and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act, against all parties having claims of any kind in tort, contract or otherwise against The Regents or the Trustee, irrespective of whether the parties have notice thereof; provided, however, that the pledge of General Revenues set forth in this Section shall in all respects be (i) junior to any future Indebtedness or other obligations secured by a Senior Lien, (ii) on a parity with any future Indebtedness or other obligations secured by a Parity Lien, and (iii) senior to any Current Subordinate Lien Indebtedness or any future Indebtedness or other obligations secured by a Subordinate Lien.

Funds and Accounts

The Indenture creates the following funds and accounts of The Regents which will be held by the Trustee, except for the General Revenue Fund, Cost of Issuance Funds and Construction Accounts which will be held by The Regents: (a) the Debt Service Fund; (b) the Interest Fund; (c) the Principal Fund; (d) the Redemption Fund (including a separate Optional

Redemption Account and a separate Special Redemption Account); (e) the General Revenue Fund; (f) the Rebate Fund; and the 2010 Costs of Issuance Funds.

Interest Fund. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture), and otherwise as provided in the Indenture.

Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of purchasing or redeeming or paying at maturity the Bonds as provided in this Section, and otherwise as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds, if any, of each Series and maturity, (the "Sinking Account"). On or before each date specified in a Supplemental Indenture, the Trustee shall transfer the amount deposited in the Principal Fund pursuant to the Indenture for the purpose of making a Mandatory Sinking Account Payment (if such deposit is required in such month) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the Series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture; provided that, at any time prior to giving such notice of such redemption, the Trustee shall apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as may be directed by The Regents. All Bonds purchased or deposited pursuant to this subsection shall be cancelled and delivered by the Trustee to or upon the Written Request of The Regents. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Debt Service Fund. Subject to a different allocation provided in a Supplemental Indenture for a Series of Bonds issued pursuant to such Supplemental Indenture, all Term Bonds purchased from a Sinking Account or deposited by The Regents with the Trustee shall be applied, to the extent of the full principal amount thereof, to reduce Mandatory Sinking Account Payments as follows: first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Bonds, then pro rata to the remaining Mandatory Sinking Account Payments required for such Series and maturity of Bonds in proportion to the amount of such Mandatory Sinking Account Payments.

Redemption Fund. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds outstanding, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the redemption prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Trustee shall apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage

and other charges, but excluding accrued interest, which is payable from the Interest Fund) as may be directed by The Regents. Each Supplemental Indenture shall provide for the establishment of subaccounts within the Optional Redemption Account or the Special Redemption Account for the redemption or purchase of Bonds of particular Series from moneys allocable to such Series and required by a Supplemental Indenture to be deposited into such subaccount. Subject to a different allocation provided for such subaccounts by Supplemental Indentures, all Term Bonds of any Series purchased or redeemed from the Redemption Fund shall be allocated to applicable Mandatory Sinking Account Payments pro rata to the Mandatory Sinking Account Payments required for such Series and maturity of Bonds in proportion to the amount of such Mandatory Sinking Account Payments.

Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the Rebate Fund. The Regents shall cause to be deposited in the Rebate Fund the rebate requirement as provided in the Tax Certificate for each Series of Bonds the interest on which is excluded from gross income for federal income tax purposes. Subject to the provisions of this section, moneys held in the Rebate Fund are pledged to secure payments to the United States government, and The Regents and the owners shall have no rights in or claim to such moneys. The Trustee shall invest all amounts held in the Rebate Fund in accordance with directions from The Regents.

Upon receipt of the rebate instructions required to be delivered to the Trustee by the Tax Certificate, the Trustee shall remit part or all of the balance held in the Rebate Fund to the United States government as so directed. In addition, if the rebate instructions so direct, the Trustee shall deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as the rebate instructions direct.

The Trustee shall conclusively be deemed to have complied with the provisions of this section if it follows the directions of The Regents set forth in the rebate instructions and shall not be required to take any actions thereunder in the absence of rebate instructions from The Regents.

Notwithstanding any provisions of this section, if The Regents shall provide to the Trustee any Opinion of Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion of interest on the Series of Bonds from gross income for federal income tax purposes, the Trustee and The Regents may conclusively rely on such opinion in complying with the requirements of this section, and the covenants under the Indenture shall be deemed to be modified to that extent.

2010 Series S Costs of Issuance Fund. Moneys in the 2010 Series S Costs of Issuance Fund shall be used to pay Costs of Issuance with respect to the 2010 Series S Bonds, and at the end of six months from the date of issuance of the 2010 Series S Bonds, or upon earlier determination by The Regents that the amounts in said fund are no longer required for payment of Costs of Issuance, said fund shall be terminated and any amounts then remaining in said fund shall be transferred to the Trustee for deposit in the Debt Service Fund.

2010 Series T Costs of Issuance Fund. Moneys in the 2010 Series T Costs of Issuance Fund shall be used to pay Costs of Issuance with respect to the 2010 Series T Bonds, and at the

end of six months from the date of issuance of the 2010 Series T Bonds, or upon earlier determination by The Regents that the amounts in said fund are no longer required for payment of Costs of Issuance, said fund shall be terminated and any amounts then remaining in said fund shall be transferred to the Trustee for deposit in the Debt Service Fund.

2010 Series S Construction Account. Moneys in the 2010 Series S Construction Account shall be used and withdrawn by The Regents to pay the cost of the acquisition, construction, improvement and/or renovation of all or a portion of the 2010 Projects, including reimbursements of any sums advanced by The Regents for such purposes and refunding borrowings of The Regents incurred for such purposes, and to pay interest on the 2010 Series S Bonds in such amounts and on such dates as determined by The Regents.

2010 Series T Construction Account. Moneys in the 2010 Series T Construction Account shall be used and withdrawn by The Regents to pay the cost of the acquisition, construction, improvement and/or renovation of all or a portion of the 2010 Projects, including reimbursements of any sums advanced by The Regents for such purposes and refunding borrowings of The Regents incurred for such purposes, and to pay interest on the 2010 Series T Bonds in such amounts and on such dates as determined by The Regents.

Flow of Funds

General Revenues. The Regents agrees that, so long as any of the Bonds remain Outstanding (i) all of the General Revenues not encumbered by any Senior Lien or Parity Lien shall be deposited as soon as practicable upon receipt in a fund designated as “The Regents of the University of California General Revenue Fund” (the “General Revenue Fund”) which The Regents shall establish and maintain at such banking institution or institutions (which may include the Trustee) as The Regents shall from time to time designate for such purpose (the “Depository Banks”) and (ii) funds equal to General Revenues encumbered by any Senior Lien (but not encumbered by any Parity Lien) shall be deposited in the General Revenue Fund at the earliest practicable time and to the extent such funds are available pursuant to the terms of the Security Documents evidencing such Senior Lien. To the extent General Revenues are encumbered by Indebtedness (other than a Series of Bonds) or other obligations secured by a Parity Lien, The Regents agrees to allocate in a fair and equitable manner (i) amounts to be deposited in the General Revenue Fund and (ii) amounts to be transferred to the funds and accounts established pursuant to the Security Documents securing the Indebtedness or other obligations secured by a Parity Lien. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, The Regents grants a security interest to the Trustee in the General Revenue Fund to secure the payment of the principal of and interest on the Bonds Outstanding and the payment of all amounts due pursuant to Ancillary Obligations and the pledge of General Revenues under the Indenture.

Amounts in the General Revenue Fund may be used and withdrawn by The Regents at any time for any lawful purpose (including any use required by a Security Document), except as restricted in the Indenture. In the event of the occurrence of an Event of Default of which the Trustee has actual knowledge or has received written notice, the Trustee shall notify The Regents and the Depository Banks of such delinquency, and The Regents shall cause the Depository

Banks to, and the Depository Banks shall, transfer the General Revenue Fund to the name and credit of the Trustee. All General Revenues shall continue to be deposited by The Regents in the General Revenue Fund as provided by the Indenture until all Events of Default known to the Trustee shall have been made good or cured or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon the General Revenue Fund shall be returned to the name and credit of The Regents. During any period that the General Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw amounts in said fund first to pay fees, expenses and disbursements of the Trustee and its agents in the event such fees, disbursements or expenses have not otherwise been paid by The Regents, and second to make the transfers and deposits required by the Indenture. The Regents agrees to execute and deliver all instruments as may be required to implement this section. The Regents further agrees that a failure to comply with the terms of this section shall cause irreparable harm to the owners from time to time of the Bonds and shall entitle the Trustee, with or without notice, to take immediate action to compel the specific performance of the obligations of The Regents as provided in this section.

On or before any Interest Payment Date, and as long as any of the Bonds remain Outstanding, The Regents shall transfer from the General Revenue Fund to the Trustee for deposit in a special fund designated as “The Regents of the University of California General Revenue Debt Service Fund” (the “Debt Service Fund”), which the Trustee shall establish, maintain and hold in trust, such amount as is required by the Indenture to make the transfers and deposits required on such Interest Payment Date (or to replenish the amounts required to be on deposit in any fund under the Indenture). In addition, The Regents shall, pursuant to the terms and provisions of a Supplemental Indenture providing for Ancillary Obligations, transfer from the General Revenue Fund the amounts due and payable pursuant to such Ancillary Obligations. Each transfer by The Regents to the Trustee under the Indenture shall be in lawful money of the United States of America and paid to the Trustee at its corporate trust office in San Francisco, California. All such moneys shall be promptly deposited by the Trustee upon receipt thereof in the Debt Service Fund. All moneys deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. If The Regents fails to make timely payment of all amounts required to be made pursuant to this paragraph, The Regents shall promptly make such payments in full as soon as possible.

The Trustee shall transfer from the Debt Service Fund, and deposit into one or more of the following respective funds (each of which the Trustee shall establish and maintain and hold in trust, and each of which shall be disbursed and applied only as authorized by the Indenture), on or before each Interest Payment Date, the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of General Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

First: Into the Interest Fund, the amount, if any, needed to increase the amount in the Interest Fund to the aggregate amount of interest becoming due and payable on such Interest Payment Date upon all Bonds then Outstanding.

Second: Into the Principal Fund, the amount, if any, needed to increase the amount in the Principal Fund to the aggregate amount of principal and Mandatory Sinking Account Payments becoming due and payable on the Outstanding Bonds on such Interest Payment Date.

Any moneys remaining in the Debt Service Fund on each Interest Payment Date shall be transferred, free and clear of the lien of the Indenture, to, or upon the order of, The Regents to be applied for any lawful purpose of The Regents, and the Trustee shall have no obligation or duty to inquire or investigate how such moneys are being used.

Investment of Moneys in Funds

All moneys in any of the funds and accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee in Investment Securities as directed by The Regents.

Particular Covenants

Punctual Payments. The Regents shall pay or cause to be paid punctually the principal of, premium, if any, and interest due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of General Revenues and other assets pledged for such payment as provided in the Indenture.

No Extension of Payment of Principal and Interest on the Bonds. The Regents shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and claims for interest thereon which shall not have been so extended. Nothing in this section shall be deemed to limit the right of The Regents to issue obligations for the purpose of refunding any outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Permitted Indebtedness, Obligations and Encumbrances. So long as an Event of Default has not occurred and is continuing under the Indenture, The Regents may incur any Indebtedness or other obligations payable from General Revenues, including, but not limited to, Indebtedness or other obligations secured by a Senior Lien, Parity Lien or Subordinate Lien.

Power to Issue Bonds and Make Pledge and Assignment. The Regents is duly authorized pursuant to law to issue the Bonds and to execute and deliver the Indenture and to pledge and assign the General Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding limited obligations of The Regents in accordance with their terms, and The Regents shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of General

Revenues and other assets and all the rights of the Bondholders under the Indenture against all claims and demands of all persons whomsoever.

Payment of Taxes and Claims. The Regents or the Trustee shall, from time to time, but solely from General Revenues, duly pay and discharge, or cause to be paid and discharged, any property taxes, assessments or other governmental charges that may be lawfully imposed upon the General Revenues or other assets pledged or assigned under the Indenture, when the same shall become due, as well as any lawful claim which, if unpaid, might by law become a lien or charge upon the General Revenues or such other assets or which might impair the security of the Bonds.

Accounting Records and Financial Statements. The Regents shall cause the Trustee to keep proper books of record and account in which complete and accurate entries shall be made in accordance with industry standards of all transactions relating to the proceeds of Bonds, the General Revenues, and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by The Regents and by any Bondholder, or its agent or representative duly authorized in writing, during any Business Day at reasonable hours and under reasonable circumstances, including at least 24 hours notice.

Not later than seven months after the end of each Fiscal Year of The Regents, The Regents shall also furnish to the Trustee a certified report of audit, prepared by an Independent Certified Public Accountant, reflecting the financial condition and record of operation of The Regents.

Compliance with Indenture, Contracts, Laws and Regulations. The Regents shall faithfully observe and perform all the covenants, conditions and requirements of the Indenture, shall not issue any Bonds in any manner other than in accordance with the Indenture, and shall not suffer or permit any default to occur under the Indenture, or do or permit to be done, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to the Indenture. Subject to the limitations and consistent with the covenants, conditions and requirements contained in the Indenture, The Regents and the Trustee shall comply with the terms, covenants and provisions of all contracts concerning or affecting the application of proceeds of Bonds or the General Revenues.

General Revenue Covenant. So long as the Bonds are Outstanding, The Regents shall set rates, charges, and fees in each Fiscal Year so as to cause General Revenues deposited in the General Revenue Fund to be in an amount sufficient to pay principal of and interest on the Bonds and amounts due and payable on Ancillary Obligations for the then-current Fiscal Year.

Waiver of Laws. The Regents shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time thereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by The Regents to the extent permitted by law (but only with respect to the application of General Revenues to pay the principal of and interest on the Bonds).

Further Assurances. The Regents will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in the Indenture.

Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, The Regents and the Trustee covenant and agree that The Regents will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed and delivered in connection with such Series of Bonds and applicable to them. Notwithstanding any other provision of the Indenture, failure of The Regents or the Trustee to comply with the provisions of any Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee at the written request of any Participating Underwriter or the Holders of at least 50% aggregate principal amount of any Series of Bonds then Outstanding, shall, but only to the extent it has been indemnified to its satisfaction from any loss, liability, cost, claim or expense whatsoever, including, without limitation, fees and expenses of its attorneys, or any Holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause The Regents or the Trustee, as the case may be, to comply with its obligations under this section.

Additional Bonds

The Regents may by Supplemental Indenture establish one or more Series of Bonds, payable from General Revenues and secured by the pledge made under the Indenture.

See “Conditions Precedent to Issuance of Bonds.”

Events of Default

Pursuant to the Indenture, the following events shall be Events of Default:

(a) default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) default by The Regents in the observance of any of the covenants, agreements or conditions on its part of the Indenture or in the Bonds contained, other than a default described in (a) or (b) above, and continuance of such default for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to The Regents by the Trustee, or to The Regents and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding;

(d) if The Regents files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or

inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(e) if a court of competent jurisdiction shall enter an order, judgment or decree declaring The Regents an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of The Regents, or approving a petition filed against The Regents seeking reorganization of The Regents under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

(f) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of The Regents, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

Acceleration. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the request of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding shall, upon notice in writing to The Regents, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. The Trustee shall immediately give notice of such declaration to Bondholders, in the same manner that notices of redemption are given, specifying the date of such declaration, that as of the Business Day immediately following such declaration the Bonds shall cease to bear interest; and that all principal of and interest on the Bonds to the Business Day immediately following such declaration of acceleration shall be payable upon the surrender thereof at the principal office of the Trustee.

Application of General Revenues and Other Funds After Default. If an Event of Default shall occur, then, and in every such case during the continuance of such Event of Default, all General Revenues and any other moneys then held or thereafter received by the Trustee under any of the provisions of the Indenture, shall be applied by the Trustee as follows and in the following order:

1. To the payment of any compensation and expenses as due to the Trustee under the Indenture;
2. To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, any stamping thereon of the payment if only partially paid or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:
 - (i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount

available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

- (ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over the principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds and the Indenture, as well as under applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its sole satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate suit, action, mandamus or other proceedings as it shall deem most effectual to protect or enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, or any law; and upon instituting such proceeding, the Trustee shall be entitled as a matter of right to the appointment of a receiver of the General Revenues and other assets pledged or assigned under the Indenture. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the

Indenture. Nothing therein contained shall be deemed to require the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Bondholders' Direction of Proceedings. The Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction and the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Holders pursuant to the Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted by the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Holders of a majority of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under any law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Indenture on the rights of any other Holder of Bonds, or to enforce any right under the Indenture or applicable law with respect to the Bonds, except in the manner therein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Modification without Consent of Bondholders

The Regents and the Trustee from time to time and at any time, subject to the conditions and restrictions contained in the Indenture, may enter into an indenture or indentures

supplemental thereto, which indenture or indentures thereafter shall form a part thereof, for any one or more or all of the following purposes --

(a) to add to the covenants and agreements of The Regents in the Indenture contained, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon The Regents by the Indenture;

(b) to evidence the succession of another corporation, whether public or private, to The Regents, or successive successions, and the assumption by a successor corporation of the covenants and obligations of The Regents in the Bonds and in the Indenture contained;

(c) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in regard to any matters or any questions arising under the Indenture, as The Regents may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the owners of the Bonds;

(d) to conform to the terms and conditions of the Security Documents evidencing a Senior Lien or Parity Lien, provided such modification shall not materially adversely affect the interests of the owners of the Bonds;

(e) to make any changes necessary or convenient to provide for the issuance of a Series of Bonds pursuant to the Indenture including any changes necessary or convenient in connection with the establishment of an interest rate mode, tender and purchase provisions;

(f) to permit, provide for or accommodate the delivery of a Credit Facility, Liquidity Facility or Financial Products Agreement for any Series of Bonds;

(g) to make any changes required by a Rating Agency in order to obtain or maintain a rating for any Series of Bonds;

(h) to modify, alter, amend or supplement the Indenture in any other respect desired by The Regents which is not materially adverse to the Holders.

Any Supplemental Indenture authorized by the provisions of this section may be executed by The Regents and the Trustee without the consent of the owners of any of the Bonds at the time outstanding but the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Modification with Consent of Bondholders

With the consent (evidenced as provided in the Indenture) of the owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, The Regents and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental thereto for the purpose of adding any provisions to, or changing in any manner, or eliminating any of the provisions of, the Indenture or of any Supplemental Indenture; provided,

however, that no such Supplemental Indenture shall (1) extend the stated maturity of the Bonds or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the owner of each Bond so affected, or (2) reduce the aforesaid percentage of owners of Bonds required to approve any such Supplemental Indenture, without the consent of the owners of all Bonds then outstanding.

Defeasance

Bonds may be paid by The Regents in any of the following ways: (1) by paying or causing to be paid the principal, and interest on Outstanding Bonds, as and when the same become due and payable; (2) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem Outstanding Bonds; or (3) by delivering to the Trustee, for cancellation by it, Outstanding Bonds. If The Regents shall also pay or cause to be paid all other sums payable under the Indenture by The Regents, then and in that case, at the election of The Regents (evidenced by a Certificate of The Regents, filed with the Trustee, signifying the intention of The Regents to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of General Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of The Regents under the Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Indenture and except for the obligation of The Regents to pay any amounts under and to otherwise satisfy all of its obligations to the Trustee under the Indenture. In such event, upon Request of The Regents, the Trustee shall cause an accounting for such period or periods as may be requested by The Regents to be prepared and filed with The Regents and shall execute and deliver to The Regents all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee and any paying agent shall pay over, transfer, assign or deliver to The Regents all moneys or securities or other property held by them pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as described below) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture then all liability of The Regents in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the owner thereof shall be entitled only to payment of the principal of and interest on such Bond by The Regents.

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be--

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of

which notice of such redemption shall have been given as in Article IV of the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal, premium, if any, and all unpaid interest thereon to the redemption date; or

(b) Defeasance Obligations the principal of and interest on which when due will provide money sufficient to pay the principal, premium, if any, and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal, premium, if any, and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV of the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of The Regents) to apply such money to the payment of such principal and interest with respect to such Bonds.

Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal or interest on any Bonds and remaining unclaimed for two years after such principal or interest on the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys deposited after said date when such principal or interest on the Bonds became due and payable, shall, upon Request of The Regents, be repaid to The Regents free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to The Regents as aforesaid, the Trustee, as the case may be, shall at the request of The Regents (at the cost of The Regents) first mail a notice, in such form as may be deemed appropriate by the Trustee, to the owners of the Bonds so payable and not presented and with respect to the provisions relating to the repayment to The Regents of the moneys held for the payment thereof.

THE CONTINUING DISCLOSURE AGREEMENT

The Continuing Disclosure Agreement sets forth the covenants of The Regents to provide certain financial information and operating data relating to the Bonds. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Continuing Disclosure Agreement.

The Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) is being executed and delivered by The Regents of the University of California (“The Regents”) and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “Trustee”), in connection with the issuance of the 2010 Bonds, to be issued pursuant to the Indenture. Pursuant to the provisions of the Indenture, The Regents and the Trustee covenant and agree as follows:

Purpose of the Continuing Disclosure Agreement. The Continuing Disclosure Agreement is being executed and delivered at closing by The Regents and the Trustee for the benefit of the Holders and Beneficial Holders (as such terms are defined in the Indenture) of the

Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Definitions. In addition to the definitions set forth in the Indenture (see “Definitions” above), which apply to any capitalized term used in the Continuing Disclosure Agreement unless otherwise defined in this section, the following capitalized terms shall have the following meanings:

Annual Report shall mean any Annual Report provided by The Regents pursuant to, and as described in, Sections 3 and 4 of the Continuing Disclosure Agreement.

Disclosure Representative shall mean the Vice President-Finance of the University of California or her designee, or such other officer or employee as The Regents shall designate in writing to the Trustee from time to time.

Dissemination Agent shall mean the Trustee, acting in its capacity as Dissemination Agent under the Continuing Disclosure Agreement, or any successor Dissemination Agent designated in writing by The Regents and which has filed with the Trustee a written acceptance of such designation.

Listed Events shall mean any of the events listed in Section 5(A) of the Continuing Disclosure Agreement.

Participating Underwriter shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Repository shall mean the Municipal Securities Rulemaking Board (“MSRB”) or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

Rule shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SEC shall mean the Securities and Exchange Commission and any successor agency thereto.

State shall mean the State of California.

Provision of Annual Reports. (A) The Regents shall, or shall cause the Dissemination Agent to, not later than seven (7) months after the end of the Fiscal Year of The Regents (presently June 30), commencing with the Annual Report for the Fiscal Year ending June 30, 2010, provide to the Repository an Annual Report which is consistent with the requirements of the Continuing Disclosure Agreement. Each Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository, and may include by reference other information as provided in the Continuing Disclosure

Agreement; provided that the audited financial statements relating to the Bonds may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the Fiscal Year of The Regents changes, The Regents shall give notice of such change in the same manner as for a Listed Event under Section 5(F) of the Continuing Disclosure Agreement.

(B) Not later than fifteen (15) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the Repository, The Regents shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact The Regents and the Dissemination Agent to determine if The Regents is in compliance with the first sentence of this subsection (B).

(C) If the Trustee is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (A), the Trustee shall send a notice, in electronic format unless otherwise designated by the SEC, to the Repository in substantially the form attached as Exhibit A to the Continuing Disclosure Agreement.

(D) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository; and

(ii) file a report with The Regents and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to the Continuing Disclosure Agreement, stating the date it was provided to the Repository.

Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(A) The audited financial statements of The Regents for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles applicable to public colleges and universities. If such audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format that complies with current Generally Accepted Accounting Principles, relating to the Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report when such financial statements become available.

(B) The amount of General Revenues as of the end of the prior Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of The Regents, which have been filed with the Repository or the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Regents shall clearly identify each such other document so included by reference.

Reporting of Significant Events.

(A) Pursuant to the provisions of Section 5 of the Continuing Disclosure Agreement, The Regents shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Modifications to rights of Holders;
4. Optional, contingent or unscheduled Bond calls;
5. Defeasances;
6. Rating changes;
7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. Unscheduled draws on debt service reserves reflecting financial difficulties;
9. Unscheduled draws on credit enhancements reflecting financial difficulties;
10. Substitution of credit or liquidity providers or failure by such credit or liquidity providers to perform; and
11. Release, substitution or sale of property securing repayment of the Bonds.

(B) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that The Regents promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (F).

(C) Whenever The Regents obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (B) or otherwise, The Regents shall as soon as possible determine if such event would be material under applicable federal securities laws.

(D) If The Regents has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, The Regents shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (F).

(E) If in response to a request under subsection (B), The Regents determines that the Listed Event would not be material under applicable federal securities laws, The Regents shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (F).

(F) If the Trustee has been instructed by The Regents to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Repository in electronic format, accompanied by such identifying information as is prescribed by the Repository, with a copy to The Regents. Notwithstanding the foregoing, notice of Listed Events described in subsections (A)(4) and (A)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

Termination of Reporting Obligation. The Regents' obligations under the Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, The Regents shall give notice of such termination in the same manner as for a Listed Event under Section 5(F) of the Continuing Disclosure Agreement.

Dissemination Agent. The Regents may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by The Regents pursuant to the Continuing Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

Amendment; Waiver. Notwithstanding any other provision of the Continuing Disclosure Agreement, The Regents and the Trustee may amend the Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by The Regents), and any provision of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(A) If the amendment or waiver relates to certain portions of the sections relating to the provision of annual reports, or the content of annual reports or the list of significant events, such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(B) The Continuing Disclosure Agreement, as amended or taking into account the waiver proposed, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(C) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Holders of the Bonds.

In the event of any amendment or waiver of a provision of the Continuing Disclosure Agreement, The Regents shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its

impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by The Regents. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(F) of the Continuing Disclosure Agreement, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Additional Information. Nothing in the Continuing Disclosure Agreement shall be deemed to prevent The Regents from disseminating any other information, using the means of dissemination set forth in the Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Continuing Disclosure Agreement. If The Regents chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Continuing Disclosure Agreement, The Regents shall have no obligation under the Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Default. In the event of a failure of The Regents or the Trustee to comply with any provision of the Continuing Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 50% aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to it, shall), or any Holder or Beneficial Holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause The Regents or Trustee, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of The Regents or the Trustee to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is made applicable to the Continuing Disclosure Agreement as if the Continuing Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in the Continuing Disclosure Agreement, and The Regents agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties under the Continuing Disclosure Agreement, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of The Regents under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Beneficiaries. The Continuing Disclosure Agreement shall inure solely to the benefit of The Regents, the Trustee, the Dissemination Agent, the Participating Underwriters and Holders

and Beneficial Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

Notices. All notices or communications to or among any of the parties to the Continuing Disclosure Agreement shall be given as provided in the Continuing Disclosure Agreement. Any person may, by written notice to the other persons listed in the Continuing Disclosure Agreement, designate a different address or telephone number(s) or fax number(s) to which subsequent notices or communications should be sent.

(THIS PAGE LEFT BLANK INTENTIONALLY)

APPENDIX D

FORM OF BOND COUNSEL OPINION FOR 2010 BONDS

[Closing Date]

The Regents of the University of California
Oakland, California

The Regents of the University of California
General Revenue Bonds, 2010 Series S and 2010 Series T (Taxable)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to The Regents of the University of California (“The Regents”) in connection with the issuance by The Regents of \$75,395,000 aggregate principal amount of The Regents of the University of California General Revenue Bonds, 2010 Series S (the “2010 Series S Bonds”) and \$10,100,000 aggregate principal amount of The Regents of the University of California General Revenue Bonds, 2010 Series T (Taxable) (the “2010 Series T Bonds,” and together with the 2010 Series S Bonds, the “Bonds”) issued by The Regents pursuant to an Indenture, dated as of September 1, 2003, by and between The Regents and The Bank of New York Mellon Trust Company, N.A. as successor in interest to BNY Western Trust Company, as trustee (the “Trustee”), as heretofore supplemented and as supplemented by the Nineteenth Supplemental Indenture and the Twentieth Supplemental Indenture, each dated as of April 1, 2010, by and between The Regents and the Trustee (as so supplemented, the “Indenture”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate dated the date hereof (the “Tax Certificate”), opinions of University Counsel and counsel to the Trustee, certificates of The Regents, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than The Regents. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and

agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2010 Series S Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public corporations in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material related to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of The Regents.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, The Regents. To the extent set forth in the Indenture, the Indenture creates a valid pledge to secure the payment of the principal of, and interest on, the Bonds, of the General Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture; provided, however, that the pledge of the General Revenues shall in all respects be junior to any future Indebtedness secured by a Senior Lien, as and to the extent provided in the Indenture.
3. The Bonds are not a lien or charge upon the funds or property of The Regents except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.
4. Interest on the 2010 Series S Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and interest on the Bonds is exempt from State of California personal income taxes. Interest on the 2010 Series S Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. We observe that interest on the 2010 Series T Bonds is not excluded from gross income for federal income tax purposes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on,

the Bonds, including whether interest on the 2010 Series S Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Per

(THIS PAGE LEFT BLANK INTENTIONALLY)

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

Introduction. The information set forth in this Appendix E under the subheading “General” has been provided by The Depository Trust Company (“DTC”). Neither The Regents of the University of California (“The Regents”) nor the Underwriters of the 2010 Bonds make any representation as to its accuracy or completeness. Capitalized terms used herein which are not otherwise defined herein shall have the meaning set forth in the front portion of the Official Statement or in APPENDIX C under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT – THE INDENTURE - Definitions.”

The Beneficial Owners should confirm the following information with DTC or the DTC Participants.

So long as Cede & Co. is the registered holder of the 2010 Bonds, as nominee of DTC, references in the Official Statement, including the Appendices thereto, to the Holders of the 2010 Bonds (other than as set forth under “Tax Matters”) shall mean Cede & Co. and shall not mean the Beneficial Owners of the 2010 Bonds.

THE REGENTS AND THE TRUSTEE SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR ANY BENEFICIAL OWNER, WITH RESPECT TO: (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL AND INTEREST DUE ON THE 2010 BONDS; (III) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE HOLDERS OF THE 2010 BONDS UNDER THE INDENTURE; (IV) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2010 BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE 2010 BONDS; OR (VI) ANY OTHER MATTER.

THE TRUSTEE, AS LONG AS THE BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2010 BONDS, WILL SEND ANY NOTICE OF REDEMPTION AND ANY OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF 2010 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

General. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for The Regents of the University of California General Revenue Bonds 2010 Series S (the “2010 Series S Bonds”) and General Revenue Bonds 2010 Series T (Taxable)

(the “2010 Series T Bonds” and together with the 2010 Series S Bonds, the “2010 Bonds”). The 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate for each maturity will be issued for each Series of the 2010 Bonds, in the aggregate principal amount of such 2010 Bonds, and will be deposited with DTC. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the front portion of the Official Statement or in APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT.”

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and at www.dtc.org. The information contained in such websites is not incorporated by reference herein.

Purchases of 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2010 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2010 Bonds, except in the event that use of the book-entry system for the 2010 Bonds is discontinued.

To facilitate subsequent transfers, all 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2010 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2010 Bonds, such as redemptions, tenders, defaults and proposed amendments to the bond documents. For example, Beneficial Owners of 2010 Bonds may wish to ascertain that the nominee holding 2010 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2010 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such maturity to be redeemed.*

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to The Regents as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from The Regents or the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or The Regents, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of The Regents or the Trustee, disbursement of such

* By written notice of the Trustee, DTC will modify its practice and observe a pro rata reduction of principal with respect to the 2010 Series T Bonds.

payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2010 Bonds at any time by giving reasonable notice to The Regents or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered in accordance with the provisions set forth in the Indenture.

The Regents may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered in accordance with the provisions set forth in the Indenture.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

