

ANNUAL FINANCIAL REPORT

of the University of California Retirement System

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN –
A DEFINED BENEFIT PENSION PLAN

YEAR ENDED JUNE 30, 1999

UCRS Plan Administration

SUMMARY STATEMENT

This report contains information about the University of California Retirement Plan for the fiscal year ended June 30, 1999, and includes

audited financial statements. Significant statistics relating to the Plan and its membership base as of the 1998-99 fiscal year end are as follows:

Net assets	\$38,099,306,000
Net dividend and interest income	\$1,168,694,000
Benefit payments (<i>excluding member withdrawals and lump sum cashouts</i>)	\$624,321,000
Plan administrative and other expenses	\$20,110,000

ACTIVE PLAN MEMBERSHIP

Senate Faculty and Non-Faculty Academics	18,159 members
Management/Senior Professional	18,242 members
Professional/Support Staff	61,722 members
• Average annual salary	
Senate Faculty	\$89,931
Non-Faculty Academics	\$50,848
Management/Senior Professional	\$62,120
Professional/Support Staff	\$37,968
• Average age –	
Senate Faculty	50 years
Non-Faculty Academics	43 years
Management/Senior Professional	45 years
Professional/Support Staff	43 years

INACTIVE PLAN MEMBERSHIP

22,109 members

ANNUITANT MEMBERSHIP

Faculty	3,355 retirees
Management/Senior Professional	13,668 retirees
Professional/Support Staff	8,616 retirees
• Average retirement age –	
Faculty	63 years
Management/Senior Professional	59 years
Professional/Support Staff	60 years
• Average service credit at retirement –	
Faculty	26 years
Management/Senior Professional	22 years
Professional/Support Staff	13 years
• Average annual UCRP income –	
Faculty	\$48,182
Management/Senior Professional	\$23,285
Professional/Support Staff	\$8,670
Survivor/Beneficiary	3,890 recipients
Disabled	1,713 recipients

PLAN OVERVIEW AND ADMINISTRATION

The University of California Retirement Plan (UCRP or the Plan) is a valuable component of the comprehensive benefits package offered to employees of the University of California (the University), its affiliate, Hastings College of the Law, and Associated Students of UCLA. The Plan is a governmental defined benefit pension plan qualified under §401(a) of the Internal Revenue Code (IRC).

The University's pension program dates back to 1904, with a plan that provided for the purchase of commercial annuities for retiring professors at UC Berkeley and UC San Francisco. The current Plan was designed in 1961, before the University's participation in Social Security and before the introduction of employee life and disability insurance coverage. Over the years, the Plan has evolved to include provisions for:

- basic retirement income with four payment options;
- disability benefits;
- death benefits;
- preretirement survivor benefits; and
- annual, automatic adjustments for increases in the cost of living for retirees and inactive members.

Further, in lieu of lifetime retirement benefits, members may choose a refund of their accumulated Plan contributions and earnings or, if eligible to retire, they may elect a lump sum payment equal to the present value of their accrued retirement benefit.

At June 30, 1999, 98,123 employees at the University's nine campuses, five medical centers, three Department of Energy laboratories, Hastings College of the Law, and ASUCLA were active UCRP members.

The President of the University of California is the Plan Administrator and delegates the responsibility for the day-to-day management and operation of

the Plan to the Human Resources and Benefits department. This department conducts policy research, implements regulations to preserve the Plan's qualification with the Internal Revenue Service, and provides member recordkeeping, accounting and reporting, and receipt and disbursement of Plan assets to eligible members.

PLAN PROGRESSION

1904	Commercial annuities equal to two-thirds salary for faculty aged 70 or older with 20 years of service.
1924	PRAS pension plan introduced for faculty and high-ranking administrators.
1937	Pension plan coverage established for nonacademic employees through CalPERS.
1961	PRAS terminated due to insolvency and UCRP established to provide retirement, disability, and preretirement survivor benefits to all University career employees.
1971	Annual 2% (maximum) COLAs applied to retirement, survivor, and disability benefits.
1976	Social Security coverage offered to UCRP members.
1990	Employer/employee UCRP contributions suspended.
1991-94	Offered a total of three early retirement incentive programs to UCRP members and one to members of CalPERS
1992-94	Made a total of five Capital Accumulation Provision (CAP) allocations in behalf of eligible members.

CHANGES IN THE PLAN

The following Plan changes occurred during fiscal year 1998 – 99. These changes were mandated by legislation or recommended by the President of the University and approved by The Regents.

All currently effective Plan provisions are contained in the University of California Retirement Plan document.

DATE	CHANGE
January 1999	Expanded the Plan Administrator's authority to make technical changes to the Plan to more accurately reflect operational procedures.
April 1999	Changed Plan provisions for members electing retirement income or a lump sum cashout to cancel or change their election at any time up to the retirement or cashout date (or within 15 days after written confirmation from UCRS, if later).
May 1999	Clarified language addressing cost-of-living increases, which can be applied to annual IRC §401(a)(17) compensation limits for employees who became active Plan members before July 1, 1994.

MEMBERSHIP

Employees participate in the Plan in one of four membership classifications:

- Members with Social Security coverage
- Members without Social Security coverage
- Safety Members (police and firefighters)
- Tier Two

At 1999 fiscal year end, UCRP's total membership in all classifications was 120,232. Total membership at June 30, 1999, included 98,123 active members and 22,109 inactive members, of which 17,103 were vested and entitled to retirement benefits but not yet receiving them, and 5,006 who were not vested but were entitled to a refund of their Plan accumulations. The following table reflects Plan membership by classification over the past 10 years.

PLAN MEMBERSHIP

Year Ended June 30	Active Membership				Total Active	Inactive Members	Total Membership
	With Social Security	Without Social Security	Safety Members	Tier Two Members			
1999	88,723	8,923	395	82	98,123	22,109	120,232
1998	83,490	9,388	401	84	93,363	21,998*	115,361
1997	83,100	9,820	395	89	93,404	28,778	122,182
1996	81,510	10,197	392	95	92,194	25,422	117,616
1995	80,246	10,584	390	98	91,318	21,913	113,231
1994	77,421	11,164	391	101	89,077	18,734	107,811
1993	78,121	13,326	406	108	91,961	16,187	108,148
1992	77,571	14,379	409	120	92,479	15,058	107,537
1991	74,619	15,161	**	**	89,780	17,580	107,360
1990	76,399	18,598	**	**	94,997	6,021	101,018

* The decrease in inactive membership during fiscal year 1997-98 is attributable to a change in the methodology used to determine inactive membership; i.e., separated University employees with less than 5 years service credit and no UCRP account balance (University or member contributions).

** Safety and Tier Two members were not counted separately for fiscal years 1990-1991.

FUNDING POLICY

The Regents' funding policy has been to establish annual contributions as a percentage of payroll by using the entry age normal actuarial funding method. In fiscal year 1990-91, The Regents adopted a full funding policy. Under that policy, The Regents suspend contributions to the Plan when the market value or the actuarial value of

Plan assets (whichever is smaller) exceeds the lesser of the actuarial accrued liability or 150% of current liability plus normal cost.

The University has not made contributions to the Plan since November 1990 due to the Plan's fiscal position and its fully funded status as described in IRC §412.

UCRP FUNDING STATUS

Plan Year Beginning July 1	<i>(dollars in millions)</i>		
	(a) Actuarial Value of Assets in Excess of AAL	(b) Assets in Excess of Full Funding Liability	(c) Market Value of Assets in Excess of AAL
1999	\$9,929.8	\$9,168.6	\$15,942.3
1998	6,515.7	5,816.8	14,105.3
1997	3,593.9	2,932.1	9,871.8
1996	1,810.6	1,186.8	5,816.9
1995	1,091.5	508.0	3,513.3
1994	1,241.4	719.8	1,001.5
1993	1,305.1	723.6	4,462.3
1992	2,438.6	2,317.9	3,820.2

(a) Beginning July 1, 1994, the Actuarial Value of Assets (AVA) is determined using the Adjusted Market Value Method. Prior to July 1, 1994, AVA is calculated using the Moving Average Market Value Method. The Actuarial Accrued Liability (AAL) is based on the funding method used to value the Plan. The AAL is equal to the present value of benefits to be paid less the present value of all future contributions required to finance the Plan.

(b) Assets: The lesser of the Actuarial Value of Assets or the Market Value of Assets. Full Funding Liability: IRC §412, the full funding limitation applied to the Plan, is the lesser of (a) the actuarial accrued liability plus normal cost, or (b) 150% of the current liability plus normal cost.

(c) Market Value of Assets is the June 30, 1999, net asset value.

PLAN BENEFITS

The Plan paid approximately \$624 million in retirement, disability, and preretirement survivor benefits to 31,242 members and their beneficiaries during fiscal year 1998-99.

Retirement payments include cost-of-living adjustments, and payments to survivors include basic death payments. The table below reflects total benefits paid in each category over the past 10 years.

UCRP BENEFIT PAYMENTS

(dollars in thousands)

Year Ended June 30	Retirement	Disability	Death & Survivor	Total*
1999	\$583,133	\$20,047	\$21,141	\$624,321
1998	557,669	17,115	20,707	595,491
1997	538,125	14,882	19,495	572,502
1996	523,436	13,098	17,711	554,245
1995	529,839	11,789	16,821	558,449
1994	462,891	10,951	16,141	489,983
1993	333,797	10,666	14,819	359,282
1992	283,382	9,541	14,361	307,284
1991	232,516	8,823	12,585	253,924
1990	138,809	8,353	10,224	157,386

* Does not include member withdrawals and lump sum cashouts.

The number of UCRP benefit recipients in each category as of June 30 for each of the past 10 years is shown below.

UCRP BENEFIT RECIPIENTS

Year Ended June 30	Retired Members	Disabled Members	Deceased Members	Survivors
1999	25,639	1,713	648	3,890
1998	25,075	1,517	647	3,754
1997	24,780	1,338	643	3,541
1996	24,365	1,203	569	3,350
1995	24,230	1,081	573	3,130
1994	23,301	1,024	596	2,919
1993	18,873	993	559	2,732
1992	16,606	961	600	3,074
1991	16,237	931	542	2,605
1990	10,986	850	527	2,194

INVESTMENTS

INVESTMENT MANAGEMENT

In a defined benefit plan such as UCRP, the employer/plan sponsor has a contractual obligation to pay promised benefits, with or without the necessary assets segregated in a trust fund. The employer bears the mortality and investment risk because members' benefits are not based on contributions or Plan assets. As Plan Trustees, The Regents are responsible for the investment of the Plan's assets, consistent with fiduciary laws of the State of California. The Treasurer of The Regents is the investment manager and custodian for the Plan's assets. The Treasurer's function is executed under the policies established by the Regents' Committee on Investments to protect the interests of all Plan members and their beneficiaries.

The assets of the Plan are held separately under a custodial agreement with State Street Bank & Trust Co. The bank carries insurance against loss of property caused by employee dishonesty, theft, misplacement, damage, distribution, or mysterious disappearance.

ASSET ALLOCATION

Total Fund. The bulk of the \$38.1 billion investment portfolio is invested in common stocks of global companies. The balance includes alternative equities and investments in high-quality government, corporate, and foreign bonds, and cash equivalents.

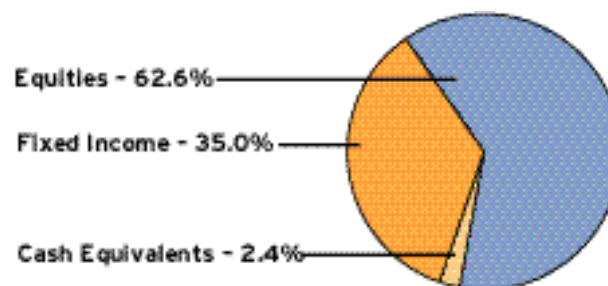
PROXY VOTING POLICY

The following summarizes Regents' policy on proxy voting.

The Regents, as shareholder, have instructed the Treasurer to vote with management recommendations on most proxy issues that are of a routine business management nature. When the proxy issue is controversial or relates to social matters, it is submitted by the Treasurer to be voted upon by all members of The Regents.

TOTAL INVESTMENT RETURN

The Regents are committed to achieving a long-term total return that meets the Plan's benefit obligations to its members and beneficiaries. In executing investment policy, the Treasurer looks to maximize real, long-term total returns (income plus capital appreciation, adjusted for inflation), while assuming appropriate levels of risk.



HISTORICAL INVESTMENT PERFORMANCE

TOTAL RATE OF RETURN COMPARISONS

Year Ended June 30	UCRP	CRA Balanced Fund Median	S&P 500*	Lehman G/C/Y	Inflation*
1999	12.2%	10.5%	22.8%	2.7%	2.0%
1998	21.8	17.8	30.2	11.3	1.7
1997	25.8	20.7	34.7	7.8	2.3
1996	21.2	16.0	26.1	4.7	2.8
1995	26.2	17.0	26.0	12.8	3.0
1994	(2.8)	0.8	1.3	(1.5)	2.5
1993	17.1	14.0	13.6	13.2	3.0
1992	15.3	13.2	13.5	14.2	3.1
1991	9.3	9.0	7.4	10.2	4.7
1990	13.7	11.1	16.4	7.1	4.7
Compound Annualized Rates	15.6%	12.9%	18.8%	8.1%	3.0%
Cumulative Rates	328.0%	235.9%	458.2%	118.4%	33.9%
Standard Deviation	11.9%	N/A	15.9%	4.7%	0.7%

Capital Resource Advisors – The Capital Resource Advisors Balanced Fund Median (formerly the SEI Balanced Fund Median) is based on investment returns from approximately 580 similar balanced portfolios with assets aggregating more than \$97 billion as compiled by Capital Resource. Standard deviation is not presented because only quarterly returns are available.

Standard & Poor's 500 – A broad-based, market value weighted measurement of 400 industrial company stocks, 20 transportation stocks, 40 financial company stocks, and 40 public utilities.

Lehman Government / Corporate / Yankee Bond Index (Lehman G / C / Y) – A market value weighted index of intermediate and long-term domestic government and investment grade corporate debt securities comprised of approximately 70% government obligations and 30% corporate and Yankee bonds.

Inflation – The Consumer Price Index for all Urban Customers (CPI-U), not seasonally adjusted, used to measure the rate of change of consumer goods prices.

Standard Deviation – The standard deviation of an index is a measure of its volatility. For asset returns, it is calculated monthly and demonstrates the measure of risk.

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EQUITY PORTFOLIO

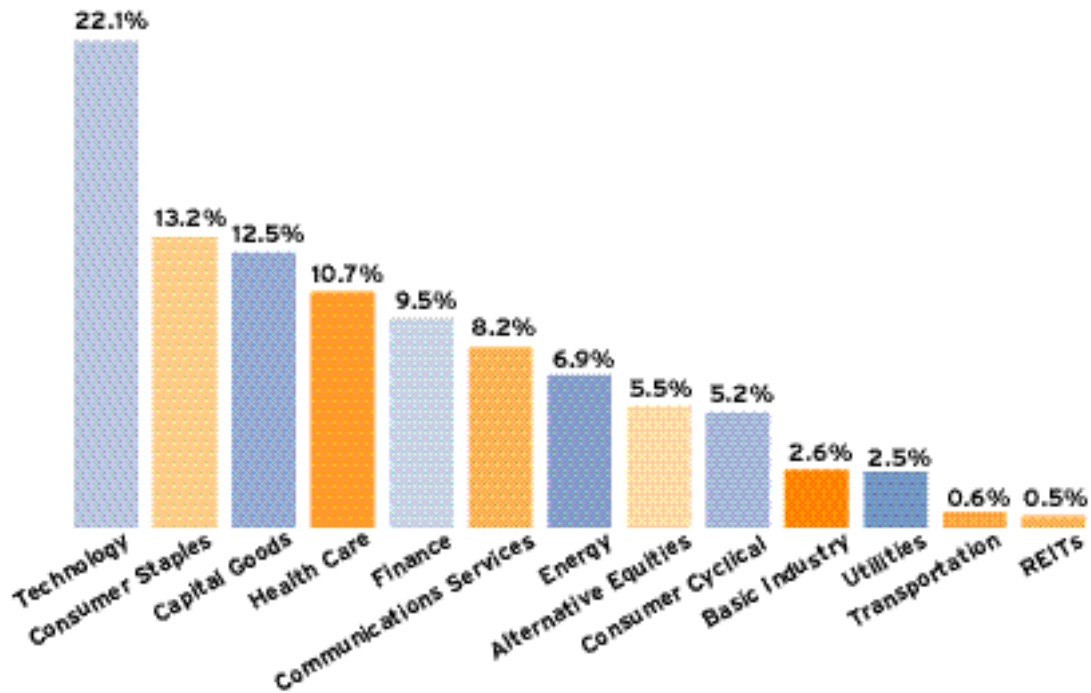
QUALITY AND DIVERSIFICATION.

The equity portfolio accounts for approximately 63% of the total Fund and is invested primarily in high-quality, global common stocks. Investments in foreign securities are currently a small but growing portion of the common stock investments and include ADRs (U.S. dollar-denominated foreign stocks) and alternative equities.

Investments in alternative equities account for approximately 3% of the total Fund.

The equity portfolio is diversified among multiple strategic economic sectors. The five largest sector holdings are: technology, consumer staples, capital goods, health care, and finance. (See chart.)

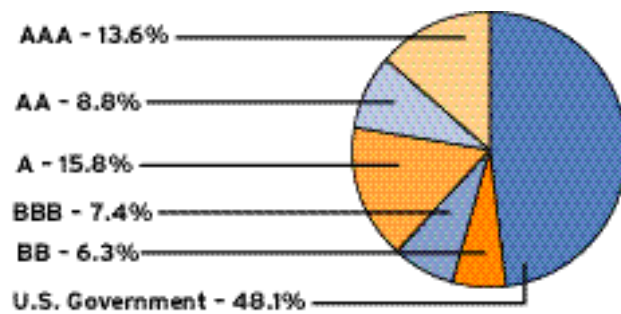
EQUITY PORTFOLIO DIVERSIFICATION BY ECONOMIC SECTOR



FIXED INCOME PORTFOLIO

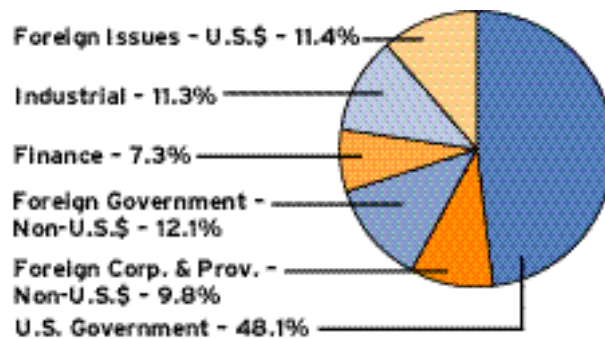
QUALITY.

The fixed income portfolio accounts for 35% of the total Fund (excluding investments of cash collateral) and is invested primarily in high-quality, call-protected, global bonds with long-term maturities. Approximately 48% of the fixed income portfolio consists of U.S. government-guaranteed securities, and 22% of the portfolio is rated AAA or AA, the two highest rankings assigned by Standard and Poor's.



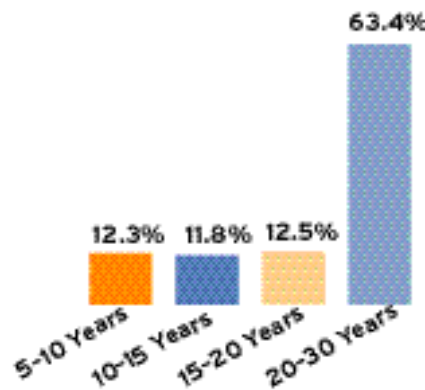
DIVERSIFICATION.

Fixed income investments are diversified among the following sectors: approximately 48% in U.S. government securities, 19% in high-grade industrials and finance, 11% in U.S. dollar-denominated foreign issues, and 22% in foreign government and corporate bonds. Of the U.S. government holdings, approximately 23% consists of zero-coupon bonds, the majority of which are in U.S. Treasury and government agency STRIPS.



MATURITY STRUCTURE.

Consistent with the long-term investment objectives of the Plan, approximately 76% of the fixed income portfolio is invested in bonds with maturities of 15 to 30 years. Although this makes the portfolio more sensitive to interest rates, long-term bonds generally offer higher yields and have historically produced greater total returns. The weighted duration of the portfolio is approximately 13 years and the weighted average maturity is approximately 20 years.



TREASURY OBLIGATIONS:

Guaranteed by the full faith and credit of the United States and rated AAA by Standard & Poor's.

STANDARD & POOR'S BOND RATINGS —

- AAA:** Highest quality. Extremely strong capacity to pay principal and interest.
- AA:** High quality. Very strong capacity to pay principal and interest.
- A:** Upper medium investment grade. Strong capacity to pay principal and interest.
- BBB:** Medium investment grade. Adequate capacity to pay principal and interest.
- BB:** Speculative characteristics. Exposure to adverse conditions could impair current ability to pay principal and interest.

HEALTH AND WELFARE BENEFIT COVERAGES

Tax-qualified non-pension employee benefits are covered under various IRC sections and state statutes, which set forth coverage, definitions, and funding rules. Health and welfare benefit coverage is not a funding obligation of UCRP, nor can these benefits be paid from the UCRP trust fund.

As part of the annual California state budget, the University receives appropriations toward the cost of plan premiums that parallel appropriations to other similarly situated state agencies. These programs are currently provided to approximately 99,900 employees, to 34,300 annuitants, and to eligible family members of both groups.

In contrast to the pension liability, which has long been identified as a University contractual obligation and has been funded at levels adequate to ensure future payment of benefits, the University's liability for both current and postretirement health and welfare benefits is limited to its annual appropriation from the State of California.

If The Regents were to create and operate an actuarially sound postretirement health care plan, thereby separating the University from The Public Employees Medical and Hospital Care Act under Government Code §22751 et seq., the estimated accrued liability would amount to approximately \$3.5 billion. These benefits are considered

earned during a member's period of service and are estimated based on benefits accrued during each year worked and discounted to a present value. The present value of postretirement benefits is based on age and years of service.

MEDICAL PLANS

The University's medical plans were authorized and funding established by California state statute and Regental resolution in 1961. The statute, as frequently amended, sets forth provisions, definitions, and contribution rules applicable to all state employees whose medical plan coverage is financed by the state's general revenues and is therefore subject to the annual appropriation process. In 1999, University employees and annuitants each received an aggregate \$2,976, which covered the full cost of medical plan coverage for 43.8% of the covered population (58,782 people, including eligible family members). Approximately 75,391 employees and annuitants (56.2% of the covered population) have coverage under a medical plan that requires cost-sharing. The current University contribution covers the total premium for the lowest cost health maintenance organization (HMO) plan, which provides at least one completely University-paid medical plan at each location.

ANNUAL MEDICAL PLAN PREMIUM EXPENSE

(dollars in thousands)

Year	University Contribution*	Employee/Annuitant Contribution	Total Premium Cost
1999	\$399,527	\$25,652	\$425,179
1998	360,199	22,651	382,850
1997	352,934	23,751	376,685
1996	344,461	29,824	374,285
1995	363,381	22,595	385,976

* Maximum annual employer contribution for all medical plans. For 1999: \$1,752 single; \$3,588 two-party; \$4,860 family. The University contribution shown above does not include the contribution for Medicare Part B premiums, which exceeded \$7 million in 1999.

MEDICAL PLAN COVERAGE – 5-YEAR ENROLLMENTS

Year	Total Covered Employees, Annuitants & Family Members
1999	281,268
1998	271,200
1997	275,700
1996	276,300
1995	275,200

ENROLLMENT BY TYPE OF MEDICAL PLAN - 1999

	Employees	Annuitants	Total*
Fee-for-service & Preferred Provider	4,800	9,200	14,000
Point of Service	20,400	6,700	27,100
HMOs	74,700	18,400	93,100

* Does not include employees/annuitants in medical plans for Medicare enrollees.

OTHER HEALTH AND WELFARE PLAN COVERAGE

In addition to medical plan coverage, the University contributes toward the cost of dental, vision, short-term disability, and life insurance benefits for all eligible employees. For dental care, employees can choose coverage under one of two plans that provide preventive, basic, prosthetic, and orthodontic dental benefits. Coverage under the vision plan includes routine eye examinations and corrective lenses.

University-paid disability insurance pays a temporary income to any eligible employee who incurs a short-term disability. Benefits paid through this plan equal a percentage of the employee's base salary up to a maximum of \$800 per month for up to six months. Lastly, in accordance with IRC §79, the University maintains a group term life policy that provides basic life insurance coverage equal to one times an employee's annual base salary, up to a maximum of \$50,000.

During 1999, the University's contribution toward the cost of plan premiums to provide coverage to eligible employees under these other health and welfare plans exceeded \$107 million.

Employees may also purchase additional disability and life insurance coverage, and they have the option to enroll in a legal expense insurance plan and an accidental death and dismemberment plan at their own expense. A flexible spending account for child-care expenses is also available.

OTHER HEALTH AND WELFARE PLAN ENROLLMENTS - 1999

	Total Covered Employees	Total Covered Annuitants	Total University-Paid Premiums
Dental Care	91,941	33,471	\$81.0 million
Vision Care	92,081	**	\$13.1 million
Disability Insurance	92,827	**	\$8.0 million
Term Life Insurance	107,265	**	\$5.6 million

** University-paid vision, disability, and term-life insurance coverages cannot be continued into retirement.

UCRP AUDIT LETTER



FINANCIAL STATEMENTS

STATEMENTS OF PLAN NET ASSETS

(\$ in thousands)

June 30

1999

1998

Assets

Investments, at fair value:

Equity securities:

Domestic

\$20,798,610

\$19,416,834

Foreign

1,749,833

1,573,611

Alternative

1,300,110

927,294

Fixed income securities:

U.S. government

6,399,986

5,002,551

Other U.S. dollar denominated

3,996,505

3,676,599

Foreign

2,909,050

3,123,311

Short-Term Investment Pool

918,670

979,052

Investment of cash collateral

4,843,351

3,538,675

Total Investments

42,916,115

38,237,927

Receivables:

Contributions

102,587

105,218

Interest and dividends

181,660

165,576

Securities sales and other

37,905

4,246

Total Receivables

322,152

275,040

Total Assets

43,238,267

38,512,967

Liabilities

Payable for securities purchased

32,294

1,728

Member withdrawals, refunds, and other payables

25,258

23,302

Collateral held for securities lending

5,081,409

3,765,949

Total Liabilities

5,138,961

3,790,979

Net Assets Held in Trust for Pension Benefits*

\$38,099,306

\$34,721,988

*See Required Supplementary Schedule of Funding Progress.

See Notes to Financial Statements.

FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN PLAN NET ASSETS

(\$ in thousands)

Years Ended June 30	1999	1998
Additions		
Contributions:		
State of California	\$ 224	\$ 81
Contracts, grants, and other	248	247
Members	2,755	3,162
Total Contributions	3,227	3,490
Investment Income:		
Net appreciation in fair value of investments and foreign currency exchange contracts	2,968,503	5,266,740
Interest, dividends, and other investment income	1,148,465	1,003,521
Securities lending income	257,584	210,817
Less investment expenses	(245,868)	(203,397)
Total Investment Income	4,128,684	6,277,681
Interest Income from State of California Note	8,513	8,720
Total Additions	4,140,424	6,289,891
Deductions		
Benefit Payments:		
Retirement payments	498,779	483,138
Member withdrawals	17,453	15,319
Cost-of-living adjustments	84,354	74,531
Lump sum cashouts	101,222	71,617
Preretirement survivor payments	16,228	15,077
Disability payments	20,047	17,115
Death payments	4,913	5,630
Total Benefit Payments	742,996	682,427
Expenses:		
Plan administration	16,115	13,806
Other	3,995	150
Total Expenses	20,110	13,956
Total Deductions	763,106	696,383
Increase in Net Assets Held in Trust for Pension Benefits	3,377,318	5,593,508
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	34,721,988	29,128,480
End of Year	\$38,099,306	\$34,721,988

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 1999 and 1998

NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES.

GENERAL— The University of California Retirement Plan (the Plan) is a defined benefit plan providing lifetime retirement income, disability protection, death benefits, and pre-retirement survivor benefits to eligible employees of the University of California (the University) and its affiliates. Established in 1961, membership in the Plan is required for all employees appointed to work at least 50% time for a year or more. Generally, five years of service are required for entitlement to Plan benefits. The amount of the pension benefit is determined by salary rate, age, and years of service credit. An offset formula is used for Social Security members. The maximum monthly benefit is 100% of the employee's highest average compensation over a 36-month period, adjusted for annual Internal Revenue Code (IRC) §415 limitations. Cost-of-living adjustments (COLAs) are tied to the Consumer Price Index (CPI), according to and limited by a specified formula. Periodic ad hoc COLA adjustments are subject to funding availability. The Plan also offered three Voluntary Early Retirement Incentive Programs (VERIPs) adopted by The Regents of the University of California (The Regents), which granted enhanced benefits to certain eligible members upon electing early retirement. The VERIPs are known as Plus 5 (fiscal year 1991-1992), Take 5 (fiscal year 1992-1993), and VERIP III (fiscal year 1993-1994).

Members' contributions are accounted for separately and accrue interest at an annual compounded rate of 6%, credited monthly. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect a lump sum payment equal to the present value of their accrued benefits. Both actions thereby forfeit the member's rights to further accrued benefits.

Plan members may also have a balance in the Plan consisting of Capital Accumulation Provision

(CAP) allocations, which were credited in behalf of eligible members on various dates in 1992, 1993, and 1994. Provided to supplement basic Plan benefits, the allocations were equal to a percentage of the eligible member's covered compensation paid during the specified period. The CAP balance is generally payable in a lump sum at retirement or separation from service and includes interest credited monthly and equals an annual percentage yield of 8.5%.

For the period from July 1, 1987, to July 1, 1990, qualifying Plan members could elect to participate in noncontributory Plan membership known as Tier Two. Tier Two provides a lower level of retirement income, disability protection, and survivor benefits, calculated using specific Tier Two formulas based on the member's salary rate, age, and years of service credit. A member's election to participate in Tier Two is irrevocable and will apply for all subsequent periods of University employment that are not separated by a break in service.

At June 30, 1999, Plan membership consisted of 31,242 retirees and beneficiaries currently receiving benefits, 17,103 terminated vested employees entitled to benefits but not yet receiving them, and 5,006 terminated nonvested employees entitled to a refund of their Plan accumulations. Of current employees, 59,052 are fully vested and 39,071 are nonvested active employees covered by the Plan.

Employer contributions are made to the Plan in behalf of all members. The rate of employer contributions is established annually pursuant to Regents' funding policy (see Note 3) as a percentage of covered wages, recommended and certified by an enrolled, independent actuary, and approved by The Regents, the Plan's trustee.

BASIS OF ACCOUNTING— The financial statements have been prepared on the accrual basis of accounting.

VALUATION OF INVESTMENTS— Investments are stated at fair value. Securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted market price of a dealer who regularly trades in the security being valued. Interests in venture capital partnerships are valued based upon the valuations determined by the general partners of the respective partnerships. Investments in registered investment companies are valued based upon the net asset value of those companies.

ACCOUNTING FOR INVESTMENTS— Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned.

ADMINISTRATIVE EXPENSES— Administrative expenses are incurred in connection with the operation of the Plan for items such as staff salaries and benefits, investment management, information systems, leased space, supplies and equipment, and professional services rendered by the Plan actuary, legal counsel, and independent auditor. Direct Plan administrative expenses represent approximately \$16.1 million or 0.04% and \$13.8 million or 0.04%, respectively, of the net assets held in trust for pension benefits for fiscal years 1999 and 1998.

INCOME TAX STATUS— The Internal Revenue Service has determined and informed the University by letter dated January 9, 1997, that the Plan and related trust are designed and operated in accordance with applicable sections of the IRC of 1986, as amended, applicable to governmental defined benefit pension plans. The Plan has been amended since receiving the determination letter. However, the Plan Administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC, and is therefore qualified under §401(a) and the related trust tax exemption under §501(a).

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS— The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the reported amounts of changes in net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATION— Certain amounts in 1998 have been reclassified to conform with the 1999 financial statement presentation.

NOTE 2 – INVESTMENTS AND SECURITIES LENDING TRANSACTIONS.

The Regents are responsible for the management of the University's investments and establish investment policy that is carried out by the Treasurer of The Regents (the Treasurer).

The equity portion of the investment portfolio may include both domestic and foreign common stocks and preferred stocks, along with alternative equities. Alternative equities include venture capital partnerships, buy-out funds, and emerging market funds.

The Plan participates in the University's Short-Term Investment Pool (STIP). Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five years. Current funds for benefits and administrative expenses are invested in the STIP until expended.

The Plan participates in a securities lending program as a means to augment income. Securities are lent to select brokerage firms for which collateral is received in excess of the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Any collateral securities cannot be pledged or sold by the Plan unless the borrower defaults. Loans of domestic equities and all fixed income securities are initially collateralized at 102% of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of securities lent. The Plan receives interest and dividends during the loan period, as well as a fee from the brokerage firm. Securities on loan for

cash collateral are not considered to be categorized. At June 30, 1999, the Plan had no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. The Plan is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Securities loans immediately terminate upon notice by either the Plan or the borrower. Cash collateral is invested by the Plan's lending agent, as an agent for the Plan, in a short-term investment fund in the Plan's name, with guidelines approved by the Treasurer. At June 30, 1999, the securities in this fund had weighted average maturity of 164 days.

The Plan's investment portfolio includes certain mortgage-backed securities. These mortgage-backed securities are used to diversify the portfolio and reduce market risk exposure.

The composition of investments and securities lending transactions at June 30, 1999 is as follows:

INVESTMENTS AND SECURITIES LENDING TRANSACTIONS

(\$ in thousands)

	Investments					Investment of Cash Collateral	Total
	Owned Not Lent	Lent for Cash Collateral	Lent for Securities Collateral	Total Owned			
Investments, at fair value:							
Equity securities:							
Domestic	\$20,150,419	\$648,191		\$20,798,610			\$20,798,610
Foreign	1,749,833			1,749,833			1,749,833
Alternative	1,300,110			1,300,110			1,300,110
Fixed income securities:							
U.S. government	1,863,799	3,576,521	\$ 959,666	6,399,986			6,399,986
Other U.S.							
dollar denominated	3,904,194	92,311		3,996,505	\$4,843,351		8,839,856
Foreign	2,194,428	453,796	260,826	2,909,050			2,909,050
Short-Term Investment Pool	918,670			918,670			918,670
	\$32,081,453	\$4,770,819	\$1,220,492	\$38,072,764	\$4,843,351		\$42,916,115

The investments that are owned and not lent, or owned and lent for securities collateral, are insured, registered or held in the Plan's custodial bank as an agent for the Plan. Investments of cash collateral are held by the Plan's custodian and designated as Plan investments in the records of

the custodian. Investments that are not categorized include venture capital/private equity funds, mortgage loans, insurance contracts, other investments, and investments owned and lent for cash collateral.

Net appreciation (depreciation) in fair value of investments and foreign currency exchange contracts includes both realized and unrealized gains and losses on investments and foreign currency exchange contracts. During the year ended June 30, 1999, the Plan realized a net gain of \$3,321 million from the sale of investments and foreign currency exchange contracts. The calculation of realized gains and losses is independent of the net appreciation (depreciation) in the fair value of investments held at year end. Realized gains and losses on investments and foreign currency exchange contracts that have been held in

more than one fiscal year and sold in the current year may include the net appreciation (depreciation) of these investments and foreign currency exchange contracts reported in the prior year. The net appreciation in the fair value of investments and foreign currency exchange contracts during the year ended June 30, 1999 was \$2,969 million. This amount includes all changes in fair value, both realized and unrealized, that occurred during the year. The unrealized depreciation during the year on investments and foreign currency exchange contracts held at fiscal year end was \$352 million.

The components of the net appreciation of investments and foreign currency exchange contracts are as follows:

NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS AND FOREIGN CURRENCY EXCHANGE CONTRACTS	<i>(\$ in thousands)</i>	
	1999	1998
Unrealized Appreciation (Depreciation)		
Equity and alternative equity securities	\$ 719,460	\$ 1,172,515
Fixed income securities	(1,048,420)	1,278,807
Foreign currency exchange contracts	(133)	(3,559)
Short-Term Investment Pool	(6,366)	(1,131)
Investment of cash collateral	(16,723)	9,261
Total	\$ (352,182)	\$ 2,455,893
Realized Gains		
Sales of securities	\$3,320,685	\$2,810,847
Net Appreciation	\$2,968,503	\$5,266,740

UNREALIZED APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS AND FOREIGN CURRENCY EXCHANGE CONTRACTS	<i>(\$ in thousands)</i>	
	1999	1998
Investments at fair value as determined by quoted market price:		
Equity and alternative equity securities	\$ 494,441	\$1,144,666
Fixed income securities	(1,048,420)	1,278,807
Short-Term Investment Pool	(6,366)	(1,131)
Investment of cash collateral	(16,723)	9,261
Investments at estimated fair value:		
Alternative equity securities	225,049	27,849
Foreign currency exchange contracts	(133)	(3,559)
Total	\$(352,152)	\$2,455,893

The Plan's investment portfolio includes certain foreign denominated securities. To reduce the exposure to foreign currency fluctuations inherent in such investments, the Plan may enter into foreign currency forward contracts and options. Under the Plan's investment policies, such instruments are not permitted for speculative use or to create leverage. The Plan does not have significant foreign currency investments or foreign currency forward contracts and options at June 30, 1999.

The total investment return, representing income plus appreciation on investments, was 12.2% and 21.8%, respectively, for the years ended June 30, 1999 and 1998.

NOTE 3 – CONTRIBUTIONS AND RESERVES.

ACTUARIALLY DETERMINED CONTRIBUTION REQUIREMENTS AND CONTRIBUTIONS MADE—

The Regents' funding policy provides for actuarially determined periodic contributions at rates that provide for sufficient assets to be available when benefits are due, measured in line with the minimum contribution requirements set forth in IRC §412. The contribution rate is determined

using the entry age normal actuarial funding method. The entry age normal funding method has been utilized since 1975 as the fundamental basis for the valuation of retirement benefits. Under this method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. Under this method, the actuarial gains (losses), as they occur, reduce (increase) the unfunded actuarial accrued liability. Under the current funding policy, the Plan is fully funded at June 30, 1999 and 1998.

As of June 30, 1999, the difference between the net assets held in trust for pension benefits presented in the *Statements of Plan Net Assets* and the net assets allocated to fund the actuarial accrued liability (shown on page 27) was as follows:

	(\$ in millions)
	1999
Net Plan Assets Held in Trust for Pension Benefits	\$38,099
Less:	
Difference between smoothed market value, used for the actuarial valuation, and fair value, used for financial statement presentation	6,012
Net assets allocated to fund the actuarial accrued liability	\$32,087

The difference between smoothed market value and fair value is not considered available by Plan management for purposes of calculating the net assets allocated to fund the actuarially determined accrued liability.

The effect of the Voluntary Early Retirement Incentive Programs on the actuarial accrued liability at June 30, 1999, was as follows:

(\$ in millions)

1999

Actuarial value of assets in excess of actuarial accrued liability without VERIPs	\$10,958.8
Less unfunded actuarial liability of the VERIPs:	
Plus 5 (fiscal year 1991-1992)	03.5
Take 5 (fiscal year 1992-1993)	135.3
VERIP III (fiscal year 1993-1994)	690.2
Actuarial value of assets in excess of actuarial accrued liability with VERIPs - entry age normal cost basis	\$9,929.8

Mandatory employee contributions, made as a condition of employment, are based upon covered University wages less a specified monthly reduction, determined periodically by The Regents, currently as shown below:

MEMBER ASSESSMENT*

Effective:	Members Without Social Security	Members With Social Security		Safety Members	Monthly Reduction
		Below Wage Base	Above Wage Base		
07/01/93	3.0%	2.0%	4.0%	3.0%	\$19
11/01/90	4.5%	2.0%	4.0%	8.0%	\$19
06/30/90	6.0%	2.0%	4.0%	8.0%	\$19

* The entire member assessment was directed to the Defined Contribution Plan during fiscal year 1998-99.

At June 30, 1999 and 1998, member accumulations of current employees, including allocated investment income, in the Plan amounted to approximately \$786.9 million and \$778.1 million, respectively.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and in conformance with the full funding definitions set forth in IRC §412.

Employer contributions, if any, are credited as a percentage of covered University pay. The recommended employer contributions when combined with member contributions are intended to accumulate sufficient assets to fund the actuarial accrued liability under entry age normal cost method in order to pay accumulated Plan benefits to vested members.

EMPLOYER ASSESSMENT

Effective:	Members With Social Security, Members Without Social Security, and Tier Two Members	Safety Members
11/01/90	0.00%	0.00%
01/01/90	4.03	3.77

Accumulated Plan benefits are those future benefit payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired or terminated members or their beneficiaries, (b) beneficiaries of deceased members, and (c) present members or their beneficiaries.

Accumulated Plan benefits are based on members' compensation histories and years of service rendered as of the valuation date of June 30, 1999 and 1998.

NOTE 4 – CONTRIBUTIONS RECEIVABLE.

Contributions receivable includes \$100.6 million and \$103.4 million at June 30, 1999 and 1998, respectively, related to agreements with the State of California (the State). In 1984, the State agreed to pay contributions to the Plan of \$66.5 million in 30 annual installments of approximately \$5.9 million, including interest at 8%, based on the discount rate used in the 1984 actuarial valuation. Similarly, in fiscal year 1990, the State agreed to pay contributions to the Plan of \$57.2 million in 30 annual installments of approximately \$5.3 million, including interest at 8.46%, based on the discount rate used in the 1990 actuarial valuation.

NOTE 5 – PLAN TERMINATION.

The Regents intend and expect to continue the Plan indefinitely, but reserve the right to amend or discontinue the Plan at any time provided that any such action shall not lessen accrued benefits. In the event that the Plan is terminated, its assets shall be applied solely for the benefit of retired, vested or active participants and beneficiaries, until all liabilities of the Plan have been satisfied.

Once all liabilities have been satisfied, any excess assets shall revert to The Regents as the Plan's Trustee. Neither The Regents as Trustee nor the University carry termination insurance for the Plan, as the Plan is not subject to ERISA Title IV provisions, nor is it overseen by the Pension Benefit Guaranty Corporation.

REQUIRED SUPPLEMENTARY INFORMATION

ACTUARIAL INFORMATION

Analysis of dollar amounts of the actuarial value of assets available for benefits, actuarial accrued liability, and actuarial value of assets in excess of the actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether a plan is becoming financially stronger or weaker. Generally, the greater this percentage, the

stronger the plan. Trends in the unfunded actuarial accrued liability or assets in excess of the actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability or surplus as a percentage of annual covered payroll generally adjusts for the effects of inflation and aids in the analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the plan.

REQUIRED SUPPLEMENTARY SCHEDULE OF FUNDING PROGRESS FOR THE PAST SIX YEARS (\$ in millions)

Years Ended June 30

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets Available for Benefits*	Actuarial Accrued Liability	Actuarial Surplus	Total Funded Ratio (1)÷(2)	Annual Covered Payroll	Actuarial Surplus as a Percentage of Annual Covered Payroll (3)÷(5)
6/30/99	\$32,086.8	\$22,157.0	\$9,929.8	144.8%	\$5,346.9	185.7%
6/30/98	27,132.4	20,616.7	6,515.7	131.6%	4,959.8	131.4%
6/30/97	22,850.9	19,257.0	3,593.9	118.7%	4,762.3	75.5%
6/30/96	19,735.6	17,925.1	1,810.6	110.1%	4,500.1	40.2%
6/30/95	17,707.8	16,616.3	1,091.5	106.6%	4,262.3	25.6%
6/30/94	16,512.5	15,271.2	1,241.4	108.1%	3,888.1	31.9%

* For fiscal year 1994, this is the average ratio of market value to historical cost value determined at the end of each quarter for the last 20 quarters, times historical cost. For fiscal year 1995 and later, the actuarial value of assets is based on a smoothing method that reflects the expected market value plus amortization of investment gains and losses over five years.

REQUIRED SCHEDULE OF EMPLOYER CONTRIBUTIONS

Since 1991, the University has not been required to make contributions to the Plan (other than contributions required for service credit buyback) due to the fully funded status of the Plan.

YEAR 2000

The year 2000 issue is the result of various electronic systems, including computer systems, not properly processing dates in the year 2000 and beyond. Because the University depends heavily on

such electronic and computer systems, the year 2000 issue has the potential for causing disruption to some University operations.

As of June 30, 1999, the University has completed the awareness and assessment stages for its mission critical systems and has substantially completed the remediation stage. Both completing the remediation and validation/testing are currently underway. The University anticipates completing all stages of remediation for mission critical systems prior to December 31, 1999.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000 (CONTINUED)

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Due to the uniqueness of this issue, management cannot provide any assurances that the remediation efforts will correct all potential problems for mission critical systems, nor can it assure the Y2K readiness of parties with whom the University regularly conducts business.

ACTUARIAL INFORMATION

The required supplementary information was determined as part of the actuarial valuation as of the date indicated. Additional information as of the most recent actuarial valuation is as follows:

ADDITIONAL TREND INFORMATION

Valuation Date

Year Ended June 30, 1999

Actuarial cost method	Entry Age
	Level
Amortization method	percent open
Remaining amortization period	17.50 Years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases*	4.5-6.5%
Cost-of-living adjustments	2.00%

*Includes inflation at 4% for fiscal year 1998-99.

The actuarial assumptions are based on the presumption that the Plan will continue in operation. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

OTHER SUPPLEMENTARY INFORMATION

The total actuarial accrued liability of the Plan, calculated using the entry age normal cost method, was \$22,157 million at June 30, 1999.

This liability is then compared against the actuarial value of Plan assets to determine the annual required contribution to fund the Plan.

ACTUARIAL ACCRUED LIABILITY

(\$ in millions)

1999

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 8,666.8
Current employees:	
Accumulated employee contributions, including allocated investment earnings	786.9
Employer-financed vested	12,123.9
Employer-financed nonvested	579.4
Total actuarial accrued liability – entry age normal cost basis	22,157.0
Net assets allocated to fund the actuarial accrued liability, at smoothed market value	32,086.8
Actuarial value of assets in excess of actuarial accrued liability – entry age normal cost basis	\$ 9,929.8

OTHER SUPPLEMENTARY INFORMATION

REVENUES BY SOURCE AND EXPENSES BY TYPE FOR THE PAST TEN YEARS

REVENUES BY SOURCE

(\$ in thousands)

Year Ended June 30	Member Contributions*	Employer Contributions*	Investment & Other Income**	Total
1999	\$ 2,755	\$ 472	\$4,489,379	\$4,492,606
1998	3,162	328	3,830,508	3,833,998
1997	2,491	358	2,902,893	2,905,742
1996	2,081	331	1,242,516	1,244,928
1995	2,436	407	999,291	1,002,134
1994	6,232	483	1,305,483	1,312,198
1993	14,239	603	993,228	1,008,070
1992	13,198	529	820,617	834,344
1991	42,078	47,460	1,018,551	1,108,089
1990	87,484	162,479	1,211,818	1,461,781

EXPENSES BY TYPE

(\$ in thousands)

Year Ended June 30	Benefits***	Administrative & Other Expenses	Member Withdrawals, Transfers & Other Activity	Total
1999	\$725,543	\$20,110	\$17,453	\$763,106
1998	667,108	13,956	15,319	696,383
1997	622,744	12,517	15,259	650,520
1996	584,367	13,829	14,981	613,177
1995	587,552	17,492	22,979****	628,023
1994	511,351	23,078	35,656****	570,085
1993	376,543	22,274	19,652****	418,469
1992	307,451	18,463	5,718	331,632
1991	253,925	18,571	7,131	279,627
1990	157,386	12,491	8,746	178,623

* The decrease in member contributions since fiscal year 1991 reflects the direction of all or a portion of UCRP member contributions to the Defined Contribution Plan. The decrease in employer contributions reflects the zero University contribution rate. Both of these changes became effective November 1, 1990.

** This includes investment income, realized gain or loss on the sales of investments, and miscellaneous income. It does not include unrealized gains or losses in the value of assets.

*** Does not include member withdrawals.

**** The increase in member withdrawals reflects Capital Accumulation Provision (CAP) payments to members who elected early retirement under the VERIPs.

PERS AUDIT LETTER

FINANCIAL STATEMENTS - UNIVERSITY OF CALIFORNIA PERS

STATEMENTS OF PLAN NET ASSETS

(\$ in thousands)

June 30	1999	1998
Assets at fair value	\$82,786	\$72,573
Liabilities		23
Net Assets Held in Trust for Pension Benefits	\$82,786	\$72,550

STATEMENTS OF CHANGES IN PLAN NET ASSETS

(\$ in thousands)

Years Ended June 30	1999	1998
Additions		
Investment income	\$14,884	\$13,486
Deductions		
Retirement payments	4,649	4,687
Increase in Net Assets Held in Trust for Pension Benefits	10,235	8,799
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	72,550	63,751
End of Year	\$82,786	\$72,550

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS – UNIVERSITY OF CALIFORNIA PERS

Years Ended June 30, 1999 and 1998

NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES.

GENERAL— The University of California PERS Voluntary Early Retirement Incentive Program (the Plan) is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC-PERS members who elected early retirement under the provisions of the Plan. The University of California contributed to the California Public Employees' Retirement System (PERS) in behalf of these UC-PERS members.

Generally, to participate in the Plan, an eligible employee was required to elect concurrent retirement under PERS and the Plan effective October 1, 1991; must have had Plan Age plus Plan Service Credit equal to 80 years as of September 30, 1991, if classified as a Qualified Academic Senate Faculty Member, or, equal to 75 years if not classified as a Qualified Academic Senate Faculty Member. Of 1,579 eligible employees, 879 elected to retire under this voluntary early retirement incentive program.

The cost of contributions made to the Plan is borne entirely by the University and the Department of Energy (DOE) laboratories. Over the five-year period ended June 30, 1996, the University and DOE laboratories were required to make contributions to the Plan as determined by the Plan actuary sufficient to maintain the promised benefits and the qualified status of the Plan under the regulations of the Internal Revenue Code of 1986 (IRC). No additional contributions are required as long as the Plan remains fully funded under the actuarial basis used by the Plan.

BASIS OF ACCOUNTING— The financial statements have been prepared on the accrual basis of accounting.

VALUATION OF INVESTMENTS— The assets of the Plan are combined for investment purposes with the assets of the University of California

Retirement Plan (UCRP). Accordingly, the assets of the Plan are valued based on a pooled interest of the combined investments. The two plans are separate trusts, and each Plan is accounted for on a separate basis. Investments are stated at fair value. Securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted market price of a dealer who regularly trades in the security being valued. Interests in venture capital partnerships are valued based upon the valuations determined by the general partners of the respective partnerships. Investments in registered investment companies are valued based upon the net asset value of those companies.

ACCOUNTING FOR INVESTMENTS— Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Dividend income is recorded on ex-dividend date, and interest income is accrued as earned.

ADMINISTRATIVE EXPENSES— Administrative expenses of the Plan are paid by an annual account servicing charge of \$10 per participant.

INCOME TAX STATUS— The Plan is intended to qualify under the statutory requirements of the Internal Revenue Code of 1986, as amended, applicable to governmental defined benefit pension plans. The Plan's tax counsel believes that the Plan as currently designed and operated is in compliance with applicable requirements of IRC §401(a) and the related trust tax exemption under §501(a).

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS— The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the reported amounts of changes in net assets held in trust for pension

benefits during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENTS.

The Plan's investments of \$82,786 thousand are included within the UCRP investment pool. These monies are pooled with the monies of the University of California and invested by the Treasurer of The Regents.

The total investment return, representing income plus appreciation on investments, was 12.2% and 21.8%, respectively, for the years ended June 30, 1999 and 1998.

NOTE 3 - CONTRIBUTIONS AND RESERVES.

ACTUARIALLY DETERMINED CONTRIBUTION REQUIREMENTS AND CONTRIBUTIONS— The Regents' funding policy provides for actuarially determined lump sum or periodic contributions to be made by the Office of the President, campuses, and DOE laboratories in behalf of Plan members at rates that provide for sufficient assets to be available when benefits are due. The campuses and DOE laboratories were given the option of funding their contribution in a lump sum, over three years, or over five years. As of June 30, 1999 and 1998, the Plan was fully funded and no annual contributions were required.

Accumulated Plan benefits are those future benefit payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired or terminated members or their beneficiaries and (b) beneficiaries of deceased members.

NOTE 4 - PLAN TERMINATION.

The Regents intend and expect to continue the Plan indefinitely, but reserve the right to amend the Plan at any time provided that any such action shall not lessen accrued benefits. In the event that the Plan is terminated, Plan assets shall be applied solely for the benefit of retired members and their beneficiaries, until all liabilities of the Plan have been satisfied.

In the event Plan assets available for benefits are insufficient to meet its obligations, The Regents' funding policy provides for additional contributions to be made in behalf of Plan members by the Office of the President, campuses, and DOE laboratories.

Once all liabilities have been satisfied, any excess assets shall revert to The Regents as the Plan's Trustee. Neither The Regents as Trustee nor the University carry termination insurance for the Plan, as the Plan is not subject to ERISA Title IV provisions, nor is it overseen by the Pension Benefit Guaranty Corporation.

REQUIRED SUPPLEMENTARY INFORMATION

ACTUARIAL INFORMATION

Analysis of dollar amounts of the actuarial value of assets available for benefits, actuarial accrued liability, and actuarial value of assets in excess of the actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets available for benefits as a percentage of the actuarial

accrued liability provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether a plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

REQUIRED SUPPLEMENTARY SCHEDULE OF FUNDING PROGRESS FOR THE PAST SIX YEARS (\$ in thousands)

Years Ended June 30

Actuarial Valuation Date	(1) Actuarial Value of Assets Available for Benefits*	(2) Actuarial Accrued Liability	(3) Actuarial Surplus (Liability)	(4) Total Funded Ratio (1)÷(2)
6/30/99	\$82,786	\$43,311	\$39,475	191.1%
6/30/98	72,550	44,502	28,048	163.0%
6/30/97	63,751	46,792	16,959	136.2%
6/30/96	52,908	46,783	6,125	113.1%
6/30/95	45,353	47,565	(2,212)	95.3%
6/30/94	37,759	49,025	(11,266)	77.0%

* Reported at fair value.

Because 100% of the members in the Plan are retired, there is no annual covered payroll.

REQUIRED SUPPLEMENTARY SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR THE PAST SIX YEARS

(\$ in thousands)

Years Ended June 30	Employer Contributions	
	Annual Required Contribution	Contribution Percentage
1999	\$0	100%
1998	0	100
1997	0	100
1996	2,732	100
1995	2,732	100
1994	6,336	100
1993	10,285	100

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000

The year 2000 issue is the result of various electronic systems, including computer systems, not properly processing dates in the year 2000 and beyond. Because the University depends heavily on such electronic and computer systems, the year 2000 issue has the potential for causing disruption to some University operations.

As of June 30, 1999, the University has completed the awareness and assessment stages for its mission critical systems and has substantially completed the remediation stage. Both completing the remediation and validation/testing are currently underway. The University anticipates completing all stages of remediation for mission critical systems prior to December 31, 1999.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Due to the uniqueness of this issue, management cannot provide any assurances that the remediation efforts will correct all potential problems for mission critical systems, nor can it assure the Y2K readiness of parties with whom the University regularly conducts business.

ACTUARIAL INFORMATION

The required supplementary information was determined as part of the actuarial valuation as of the date indicated. Additional information as of the most recent actuarial valuation is as follows:

ADDITIONAL TREND INFORMATION

Valuation Date

Year Ended June 30, 1999

Actuarial cost method	Unit Credit
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair Value
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases	N/A
Cost-of-living adjustments	None

* Includes inflation at 4% for fiscal year 1998-99.

The actuarial assumptions are based on the presumption that the Plan will continue in operation. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

OTHER SUPPLEMENTARY INFORMATION

The total net assets available in excess of the total actuarial accrued liability (AAL) of the Plan based on the measure of the AAL, which uses the unit credit basis, as appears in the actuarial valuation, was approximately \$39.5 million at June 30, 1999, as follows:

ACTUARIAL ACCRUED LIABILITY	(\$ in millions)
	1999
Retirees and beneficiaries currently receiving benefits	\$43.3
Total actuarial accrued liability - unit credit basis	43.3
Net assets allocated to fund the actuarial accrued liability, at fair value	82.8
Actuarial value of assets in excess of the actuarial accrued liability - unit credit basis	\$39.5

UCRS ADVISORY BOARD

Member	Location	Term
Robert H. Drake (Chair)	Los Alamos National Laboratory	July 1995 – June 1999
Julia Armstrong-Zwart	UC Santa Cruz	July 1997 – June 2001
Stephen Barclay	UC San Francisco	July 1996 – June 2000
Jacqueline Edwards	UC San Diego	July 1998 – June 2002
Patricia E. Erickson	Lawrence Livermore National Laboratory	July 1996 – June 2000
V. Wayne Kennedy	Office of the President	Permanent
Duncan A. Mellichamp	UC Santa Barbara	July 1996 – June 2000
Patricia A. Small	Office of the Treasurer	Permanent
Steve Sugarman	UC Berkeley	July 1998 – June 2002

None of the UCRS Board members received any compensation from the Plan for services rendered during fiscal year 1998–99.

INVESTMENT MANAGEMENT

Treasurer Patricia A. Small

PLAN ADMINISTRATION

Plan Administrator	Richard C. Atkinson
Senior Vice President	V. Wayne Kennedy
UCRS Associate Vice President	Judith W. Boyette
UCRS Internal Counsel	Dorothy E. Dana
UCRS Retirement Planning and Administration	Judy F. Ackerhalt
UCRS Health and Welfare Benefits Planning and Analysis	Michele E. French
UCRS Health and Welfare Benefits Support Services	Judy McConnell
UCRS Retirement Services	Kay Miller
UCRS Financial Services and Plan Disbursements	David L. Olson
UCRS Communications and Training Services	Barbara J. Facey
UCRS Systems Administration	Myrna Walton
Plan Actuary	Towers Perrin
Plan Auditor	Deloitte & Touche LLP
Plan Counsel	O'Melveny & Myers