

**University of California  
Health & Welfare Benefits  
Department**

**Report on Audits of Department  
Financial Statements with Supplemental  
Combining Plan Information  
Six-Month Period Ended June 30, 2007**

**University of California Health & Welfare Benefits Department**  
**Contents**  
**Six-Month Period Ended June 30, 2007**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1
<b>Management Discussion and Analysis</b> .....	2-3
<b>Financial Statements</b>	
Balance Sheet.....	4
Statement of Revenues, Expenses and Change in Net Assets.....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-13
Supplementary Financial Information .....	14-15

**Report of Independent Auditors**

To The Regents of  
University of California

In our opinion, the accompanying balance sheet and the related statement of revenue, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of the University of California Health & Welfare Benefits Department (the Department) at June 30, 2007, and the changes in its financial position and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America. The financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audit 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 Note 1, the financial statements of the Department are intended to present only that portion of the governmental activities that are attributable to the transactions of the Department governed by the Group Insurance Regulations. They do not purport to, and do not, present fairly the financial position of the University of California at June 30, 2007, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis for the period ended June 30, 2007 on pages 2 through 3 is not a required part of the Department's financial statements as of and for the year then ended but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Department's financial statements taken as a whole. The supplementary combining financial information on pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the Department's financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the Department's financial statements and, accordingly, we express no opinion on it.

*PricewaterhouseCoopers LLP*

August 18, 2008

# University of California Health & Welfare Benefits Department

## Management Discussion and Analysis

### June 30, 2007

---

The objective of Management's Discussion and Analysis is to help readers of the financial statements better understand the financial position and operating activities of the University of California Health Benefits Department governed by the University's Group Insurance Regulations for the six-month period ended June 30, 2007. Human Resources and Benefits Financial Services Department (the Department) administers the health and welfare benefits (Plan) for active employees and eligible retirees and their families and survivors (retirees) of the University of California and its affiliates. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements.

#### Financial Highlights

- Unrestricted net assets of the Department increased by \$7.0 million to \$224.5 million for the six months ended June 30, 2007.
- Total operating revenues were \$682.6 million for the six months ended June 30, 2007 from contributions including:
  - University contributions of \$572.0 million;
  - Employee contributions of \$100.1 million; and,
  - Retiree contributions of \$10.5 million.
- Total operating expenses were \$681.0 million for the six months ended June 30, 2007, including:
  - Payments for insurance premiums and claims were \$679.2 million for the six months ended June 30, 2007; and,
  - Administrative expenses were \$1.8 million for the six months ended June 30, 2007.
- Net operating gain of \$1.6 million for the six months ended June 30, 2007.
- Investment income was \$5.4 million for the six months ended June 30, 2007.

#### Overview of the Financial Statements

The Department's financial statements include the balance sheet, statement of revenues, expenses and changes in net assets and statement of cash flows. The balance sheet provides information about assets and obligations of the Department at a certain point in time. The statement of revenues, expenses and changes in net assets provide information regarding the Department's operations during the fiscal period indicated. The statement of cash flows report cash sources and uses for operations, financing and investing activities for the fiscal period indicated.

#### Financial Summary and Analysis

##### Balance Sheet

*(in thousands of dollars)*

Cash and cash equivalents	\$ 220,747
Prepaid insurance premiums and other	20,513
Total current assets	<u>241,260</u>
Total current liabilities	<u>16,749</u>
Unrestricted net assets	<u>\$ 224,511</u>

Unrestricted net assets were \$224.5 million as of June 30, 2007, a increase of \$7.0 million, or 3.2 percent, from \$217.5 million as of December 31, 2006. For the six months ended June 30, 2007, the

# University of California Health & Welfare Benefits Department

## Management Discussion and Analysis

### June 30, 2007

---

increase in unrestricted net assets was attributable to a net increase in investments and receivables (including change in reserves held at carriers of \$11.5 million) of \$6.6 million and an decrease in liabilities of \$400,000.

University paid funds held as insurance reserves by the carriers included in unrestricted net assets as of June 30, 2007 were \$7.9 million. Employee paid funds held as insurance reserves by the carriers included in unrestricted net assets at June 30, 2007 were \$82,000.

#### Revenues, Expenses and Changes in Unrestricted Net Assets

*(in thousands of dollars)*

<b>Operating revenues</b>	
University contributions	\$ 572,051
Employee contributions	100,093
Retiree contributions	10,458
Total operating revenues	<u>682,602</u>
<b>Operating expenses</b>	
Insurance premiums and payments, net	679,160
Administrative expenses	1,806
Total operating expenses	<u>680,966</u>
Operating gain	1,636
<b>Nonoperating revenues</b>	
Investment income	<u>5,390</u>
Increase in unrestricted net assets	<u>\$ 7,026</u>

Operating revenues include University, employee and retiree contributions toward both purchased and self-insurance premiums, and investment income. For the six months ended June 30, 2007, total contributions amounted to \$682.6 million.

Operating expenses include benefit payments for purchased insurance premiums and self-insurance claims, and administrative expenses. Benefit payments and administrative expenses amounted to \$679.2 million and \$1.8 million, respectively, for the six-month period ended June 30, 2007.

Combined University and employee contributions were greater than benefit payments attributable to employees. Similarly, University and retiree contributions were greater than the cost of retiree benefits. As a result, unrestricted net assets were used to supplement administrative expenses for the six months ended June 30, 2007 for both employees and retirees.

Investment income was \$5.4 million for the six months ended June 30, 2007.

#### Requests for Information

This financial report is designed to provide a general overview of the Department. Questions concerning any of the information provided in this report or requests for additional information should be addressed to University of California, HR/Benefits Dept., Attention: Director of Financial Services, P.O. Box 24570, Oakland, CA 94623-1570.

**University of California Health & Welfare Benefits Department**  
**Balance Sheet**  
**June 30, 2007**

---

*(in thousands of dollars)*

**Assets**

Cash and cash equivalents	\$ 220,747
Receivables	
Insurance reserves held by insurance carriers	7,959
Prepaid insurance premiums	12,554
Total current assets	<u>\$ 241,260</u>

**Liabilities and Unrestricted Net Assets**

Accounts payable	\$ 31
Insurance premiums	10,950
Estimated self-insurance claims	5,768
Total current liabilities	<u>16,749</u>
Unrestricted net assets	<u>224,511</u>
Total liabilities and unrestricted net assets	<u>\$ 241,260</u>

The accompanying notes are an integral part of these financial statements.

**University of California Health & Welfare Benefits Department**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Six-Month Period Ended June 30, 2007**

---

*(in thousands of dollars)*

**Operating revenues**

University of California contributions	\$ 572,051
Employee contributions	100,093
Retiree contributions	<u>10,458</u>
Total operating revenues	<u>682,602</u>

**Operating expenses**

Insurance premiums and payments, net	679,160
Administrative expenses	1,173
Payments to University of California	<u>633</u>
Total operating expenses	<u>680,966</u>
Operating gain	<u>1,636</u>

**Non-operating revenue**

Investment income	<u>5,390</u>
Increase in unrestricted net assets	7,026

**Unrestricted net assets**

Beginning of year	
Held by University of California	198,057
Held by insurance carriers (University of California funds)	8,136
Held by insurance carriers (Employee funds)	<u>11,292</u>
Unrestricted net assets, beginning of year	<u>217,485</u>
End of year	
Held by University of California	216,552
Held by insurance carriers (University of California funds)	7,877
Held by insurance carriers (Employee funds)	<u>82</u>
Unrestricted net assets, end of year	<u>\$ 224,511</u>

The accompanying notes are an integral part of these financial statements.

**University of California Health & Welfare Benefits Department**  
**Statement of Cash Flows**  
**Six-Month Period Ended June 30, 2007**

---

*(in thousands of dollars)*

**Cash flows from operating activities**

University, employee and retiree contributions	\$ 698,711
Insurance premiums and payments	(680,301)
Administrative expenses paid	(1,340)
Other receipts	10,861
	<u>27,931</u>
Net cash provided by operating activities	27,931

**Cash flows from investing activities**

Investment income	<u>6,804</u>
Net cash provided by investing activities	<u>6,804</u>
Net increase in cash and cash equivalents	34,735

Cash and cash equivalents, beginning of year	<u>186,012</u>
Cash and cash equivalents, end of year	<u>\$ 220,747</u>

**Reconciliation of operating income to net cash provided by operating activities**

Operating income	\$ 1,636
Effect of changes in assets and liabilities	
Receivables:	
Contributions from University of California	16,122
Insurance reserves held by insurance carriers	11,469
Prepaid insurance premiums	(892)
Due from other plans	24
Liabilities:	
Accounts payable	(168)
Insurance premiums	78
Estimated self-insurance claims	(326)
Due to other plans	(12)
Net cash provided by operating activities	<u>\$ 27,931</u>

The accompanying notes are an integral part of these financial statements.



**University of California Health & Welfare Benefits Department**  
**Notes to Financial Statements**  
**Six-Month Period Ended June 30, 2007**

---

**1. Description of Plans**

**General**

The University of California (University) Human Resources and Benefits Financial Services Department (the Department) administers the health and welfare benefits (Plan) for active employees and eligible retirees and their families and survivors (retirees) of the University of California and its affiliates. Eligibility, benefits and administration of the Plan are governed by the University's Group Insurance Regulations. The Regents has the authority to establish or amend the Plan.

The financial statements represent only the activities of the Department governed by the University's Group Insurance Regulations. While the Department has other responsibilities, those activities are not governed by the University's Group Insurance Regulations and are not included in this report. The accounts of the Department are included in the financial statements of the University. The University represents the primary entity and has ultimate oversight responsibility for the Department. The retiree benefits provided by the Plan are unfunded and any liabilities related to the future funding requirements for the retiree benefits are reported by the University, and are excluded from the financial statements of the Department.

The University operates and manages Lawrence Livermore National Laboratory (LLNL) and Lawrence Berkeley National Laboratory (LBNL) under contracts directly with the United States Department of Energy (DOE). As a result, employees and retirees associated with these locations participate in the Plan. The DOE is financially responsible for substantially all of the current and future costs incurred at any of the national laboratories, including active and retiree health benefit costs.

Employee and retiree participation in the Plan consisted of the following at June 30, 2007:

	<b>Campuses and Medical Centers</b>	<b>DOE Laboratories</b>	<b>Total Health &amp; Welfare Benefits Department</b>
Active employees	104,635	9,687	114,322
Retirees currently receiving benefits	31,325	6,901	38,226
<b>Total participants</b>	<b>135,960</b>	<b>16,588</b>	<b>152,548</b>

The following description of the Plan provides only general information. Participants should refer to the Summary Plan Descriptions or the Plan agreements for complete descriptions of applicable health and welfare benefit plan provisions.

**Benefits and Eligibility**

For active employees, eligibility for the University's health and welfare benefits is based on the appointment level of the employee. For retirees, eligibility for retiree health benefits, primarily medical and dental coverage, requires membership in the University of California Retirement Plan (UCRP). As a result, the Plan does not have inactive vested participants.

Active employees eligible for benefits are covered by one of three benefits packages known as Full, Mid-level, and Core, as follows:

- Eligibility for Full benefits extends to an employee who is a member of the UC-sponsored retirement plan (UCRP and CalPERS) and appointed to work at least 50 percent time for a year or more or who worked 1,000 hours in a continuous 12-month period (or 750 hours for non-Senate Instructional Unit);

# University of California Health & Welfare Benefits Department

## Notes to Financial Statements

### Six-Month Period Ended June 30, 2007

---

- Eligibility for Mid-level benefits extends to an employee who is appointed to work 100 percent time for at least three months or, the appointment is at least 50 percent time for a year but the employee is not a member of a UC-sponsored retirement plan; or,
- Eligibility for Core benefits is extended to an employee who is appointed to work at least 43.75 percent time. The employee must maintain an average paid time of at least 17 ½ hours per week in order to remain eligible for benefits.

All eligible employees may enroll eligible family members in certain University–sponsored plans. The employee may only enroll one eligible adult family member: a legal spouse, an adult dependent relative or a same-sex domestic partner. Other eligible family members may include a natural or adopted child; a stepchild or grandchild; a same-sex domestic partner’s child or grandchild; or a legal ward.

The Plan includes self-insured and purchased fully-insured plans for health insurance (medical, dental, and vision), disability and life insurance, supplemental disability, supplemental life insurance, and other insurance as follows:

#### ***Medical Plans***

California-based employees are generally eligible to participate in a point-of-service plan (POS), a preferred provider organization (PPO) plan, in one of several health maintenance organizations (HMOs), or a fee-for-service plan. Nevada-based employees are generally eligible to participate in an Exclusive Provider Option (EPO) or HMO plan. All of these plans provide a variety of different levels or tiers of health care coverage and medical services. Certain California locations are also eligible to participate in a consumer model plan.

#### ***Dental Plans***

For dental care, eligible California employees can choose from one of two plans which provide preventive, basic, prosthetic, and orthodontic dental benefits. Employees outside of California receive coverage under one national plan.

#### ***Vision Plan***

The University offers the Vision Services Plan, a PPO organization, which covers a variety of vision care services including eye exams, corrective lenses, and frames, and contact lenses.

#### ***Disability Plans***

The Short-Term Disability plan paid for by the University provides basic short-term benefits for non-work related disabilities. The plan pays 55 percent of eligible earnings for up to six-months (\$800 monthly maximum), after a waiting period.

The Supplemental Disability Plan provides extended coverage for work and non-work-related disabilities. The plan supplements Short-Term Disability and combined with all other sources of disability or retirement income, pays up to 70 percent of eligible earnings, up to \$10,000 a month. There is a choice of waiting periods.

#### ***Life Insurance Plans***

The University provides group term life insurance coverage. The Basic Life Insurance Plan provides employees eligible for full benefits with life insurance equal to annual base salary, up to a maximum of \$50,000. Coverage is adjusted if appointment is less than 100 percent time.

# University of California Health & Welfare Benefits Department

## Notes to Financial Statements

### Six-Month Period Ended June 30, 2007

---

The Business Travel Accident Plan provides up to \$100,000 of coverage when an employee travels on official UC business.

#### ***Life Insurance, and Other Insurance Plans***

Employees may also purchase additional disability, employee and dependent 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.

The Basic Life Plan provides \$50,000 of University paid life insurance equal to an employee's annual salary up to \$50,000. Benefits are paid to the beneficiaries of employee if employee dies while employed or on approved leave without pay or temporary layoff.

A Core Life Plan provides \$5,000 of University paid life insurance. Benefits are paid to the beneficiaries of employee if employee dies while employed or on approved leave without pay or temporary layoff.

Supplemental Term Life Insurance may be purchased at group rates. Coverage is up to four times annual salary (subject to certain maximums) up to an absolute maximum of \$1,000,000. Benefits are paid to the beneficiaries of employee if employee dies while enrolled.

The University offers two dependent life insurance plans to employees who are eligible for full and mid-level benefits. The Basic Dependent Life plan covers spouse or domestic partner and/or eligible children for \$5,000 each. The Expanded Dependent Life Plan provides coverage for eligible dependents. The amount available for legal spouses and domestic partners is up to 50 percent of the amount of the employee's Supplemental Life amount, up to a maximum of \$200,000. An amount of \$10,000 is available for each eligible child.

The Accidental Death & Dismemberment Plan offers three levels of coverage (1) self-only, (2) family plan, and (3) modified family plan providing from \$10,000 up to \$500,000 of coverage for employees and/or eligible family members.

The employee-paid Legal Plan provides members with access to preventive, domestic, consumer, and defensive legal services.

#### **Contributions**

The contribution requirements of the University are established and may be amended by the University. Generally, employees and retirees contribute the difference between the insurance carriers' total premium rate and the University's employer contribution.

University, employee and retiree contributions of premiums made under purchased plan arrangements are determined by applying the provider 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.

Contribution requirements for employees are based on a four salary band structure as follows: \$40,000 or less; \$40,000–\$80,000; \$80,001–\$120,000; \$120,001 or higher. For the other health and welfare plans, the University and employee contributions vary depending on the contribution requirements of the plans.

# University of California Health & Welfare Benefits Department

## Notes to Financial Statements

### Six-Month Period Ended June 30, 2007

---

In 2007, the University's allocation of approximately \$6,100 per employee covered the full cost for 19 percent of the covered population. The remaining 81 percent of the covered population have coverage under a medical plan that requires cost-sharing.

Contribution requirements for retirees 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 formerly employed by the University prior to 1990 are eligible for the University's maximum contribution. Retirees formerly 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.

#### **Termination**

Although the University has not expressed any intent to do so, the benefits of all employees, retirees, and Plan beneficiaries are subject to change or termination at the time of contract renewal or at any other time by the University or other governing authorities. The University also reserves the right to determine new premiums and University contributions at any time. Health and welfare benefits are subject to legislative appropriation and are not accrued or vested benefit entitlements. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) provides for continued coverage for a certain period of time at applicable monthly COBRA rates if an employee or the employee's eligible family member loses eligibility for University-sponsored medical, dental, or vision coverage because of termination of employment, death, divorce, legal separation, annulment, termination of a same-sex domestic partnership, or if a the family member ceases to be an eligible dependent.

## **2. Significant Accounting Policies**

#### **Basis of Accounting**

The financial statements of the Department 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 before November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

Effective January 1, 2007, the Department year end changed for financial reporting purposes from a calendar year end to a fiscal year ending on June 30. This change conforms the fiscal year end for the Department with the University. As a result, the Department has prepared a balance sheet at June 30, 2007 and a statement of revenues, expenses and changes in net assets and statement of cash flows for the six-month period ending June 30, 2007.

#### **Cash and Cash Equivalents**

All University operating entities invest surplus cash balances in a short-term investment pool ("STIP") managed by the Treasurer of The Regents. The Regents are responsible for managing the University's investments and establishing investment policy, which is carried out by the Treasurer of The Regents.

Substantially all of the Department's cash is deposited into the STIP. All Department deposits into STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (and predominantly held to maturity) are not recorded by each operating entity but are absorbed by the University, as the manager of the pool.

Additional information on cash and investments can be obtained from the 2006–2007 annual report of the University.

# University of California Health & Welfare Benefits Department

## Notes to Financial Statements

### Six-Month Period Ended June 30, 2007

---

#### **Self-Insurance Claim Liabilities**

Self-insurance claims include both reported claims and current estimates of the ultimate costs of future claims (including future claims adjustment expenses) that have been incurred but have not yet been reported (IBNR claims) as of June 30. IBNR claims estimates are based on many variables including individual cases for reported losses, estimates of unreported losses using historical and statistical information and other factors. The IBNR claims liability is calculated by an independent health and welfare plan actuary, using a variety of actuarial and statistical techniques, adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

The University's self-insured plans are subject to various claims and aggregate coverage limits. The University does not purchase excess liability coverage from an independent insurer. IBNR claims liabilities are recorded in the University's financial statements when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

#### **Unrestricted Net Assets**

The Department's unrestricted net assets held at the University are included in the University's net assets and are maintained for the exclusive benefit of the participants in the Plan. Included in the Plan's unrestricted net assets are rebates received from the employee portion of a demutualization gain received from an insurance company utilized by the Plan that converted from a mutual company to a stock company. In addition, certain rebates from insurance companies have been received by the Plans that originated from the portion of insurance premiums paid by the employee. The portion of Plans unrestricted net assets resulting from the rebate associated with the demutualization gain applicable to the Disability Plans totaled \$14.7 million at June 30, 2007. Any rebates associated with the employee portion of the Plan's cost will be utilized in the future to reduce the employee's portion of insurance premiums.

#### **Insurance Rebates**

The University may receive rebates from insurance companies under the terms of the contracts with the providers. Rebates are recognized and recorded as a reduction to insurance premiums and payments when the University determines the amount is realizable. Insurance rebates were \$6,000 for the six-month period ending June 30, 2007.

#### **Administrative Expenses**

Administrative costs include direct costs of the Department and other administrative expenses incurred by the University to administer the Plan.

#### **Tax Exemption**

The Plan sponsored by the University of California is qualified under various Internal Revenue Code (IRC) sections and state statutes, which set forth coverage, definitions, and funding rules. Accordingly, net investment income on such Plan assets is exempt from income taxes.

#### **Use of Estimates in the Preparation of Financial Statements**

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, liabilities, benefit obligations, claims incurred but not reported, eligibility credits, claims payable, and amounts included in disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

**University of California Health & Welfare Benefits Department**  
**Notes to Financial Statements**  
**Six-Month Period Ended June 30, 2007**

---

**3. Self-Insurance Claim Liabilities**

Changes in self-insurance claims liabilities for the six-month period ended June 30, 2007 are as follows:

*(in thousands of dollars)*

Liability at beginning of year	\$ 6,094
Claims incurred and changes in estimates	15,939
Claim payments	<u>(16,265)</u>
Liability at end of year	<u>\$ 5,768</u>

**4. Insurance Reserves Held By Carriers**

Under the terms of the contracts with certain insurance carriers, the Plan is required to deposit cash with the carriers for the payment of claims prior to reimbursement by the Plans. As of June 30, 2007 the Plan's assets were held in reserve as follows:

*(in thousands of dollars)*

Prudential Insurance Company of America - Life	\$ 5
Blue Cross of California	4,672
Pacificare	1,500
Other carriers	<u>1,700</u>
Total employer paid	<u>7,877</u>
Liberty Mutual Company - Employee Paid Disability	<u>82</u>
Total employee paid	<u>82</u>
Total	<u>\$ 7,959</u>

The reserve balance changes each year as a result of premiums paid, claims incurred, fees and investment results of the reserve.

**5. Contingencies**

Substantial amounts are received and expended by the University under federal and state grants and contracts that include charges for certain employees' health and welfare benefits provided under the Plan, and are subject to audit by cognizant governmental agencies. These amounts relate to research, student aid, hospital operations and other programs. University management believes that any liability arising from audits of these grants and contracts is the responsibility of the University. The Plan may reimburse the University for any liability the University could be assessed.

In addition from time to time the University is involved in litigation that may affect the Plan. Management does not believe the outcome of such litigation will have a material effect on the Plan's financial position, change in net assets or cash flows.

**University of California Health & Welfare Benefits Department**  
**Notes to Financial Statements**  
**Six-Month Period Ended June 30, 2007**

---

**6. Related Party Transactions**

Certain administrative functions are performed by employees of the University. No such employee receives compensation from the Department. In 2007, the Department reimbursed the University \$633,000 for certain administrative functions.

**7. Subsequent Events**

Effective July 1, 2007, The Regents established the University of California Retiree Health Benefit Trust (UCRHBT). 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 DOE Laboratories do not participate in the UCRHBT, therefore the DOE has no interest in the UCRHBT's assets. The Regents has fiduciary responsibility for the UCRHBT, serves as Trustee, and has the authority to amend or terminate the Trust. The University has estimated the unfunded liability for retiree benefits as approximately \$12 billion as of July 1, 2007, and the annual required contribution that will be required to fund these benefits is approximately \$1.4 billion for the fiscal year ending June 30, 2008.

Effective September 30, 2007, the University's contract with the DOE to operate and manage the Lawrence Livermore National Laboratory (LLNL) terminated. Contributions and benefit payments associated with the LLNL retirees were \$16.5 million and \$16.5 million, respectively, for the period ended June 30, 2007.

Effective March 31, 2008, the University approved \$23.9 million in rebates from its employer-based medical plan reserves to its ten campuses in order to supplement the increased cost of employer medical plan premiums in effect during the fiscal year ended June 30, 2008.

**University of California Health & Welfare Benefits Department**  
**Combined Statements of Revenues, Expenses and Changes in Net Assets**  
**(with Supplemental Combining Plan Information for the Six-Month Period Ended**  
**June 30, 2007)**

<i>(in thousands of dollars)</i>	<b>Employees</b>	<b>Retirees</b>	<b>Total Health &amp; Welfare Plans</b>
<b>Operating revenues</b>			
University of California contributions	\$ 456,608	\$ 115,443	\$ 572,051
Employee contributions	100,093	-	100,093
Retiree contributions	-	10,458	10,458
Total operating revenues	<u>556,701</u>	<u>125,901</u>	<u>682,602</u>
<b>Operating expenses</b>			
Insurance premiums and payments, net	554,763	124,397	679,160
Administrative expenses	843	330	1,173
Payments to University of California	633	-	633
Total operating expenses	<u>556,239</u>	<u>124,727</u>	<u>680,966</u>
Operating gain	<u>462</u>	<u>1,174</u>	<u>1,636</u>
<b>Nonoperating revenue</b>			
Investment income	5,390	-	5,390
Transfer of unrestricted net assets for retirees expenses	1,174	(1,174)	-
Increase in unrestricted net assets	<u>7,026</u>	<u>-</u>	<u>7,026</u>
<b>Unrestricted net assets</b>			
Beginning of year:			
Held by University of California	198,057	-	198,057
Held by insurance carriers <sup>1</sup>	8,136	-	8,136
Held by insurance carriers <sup>2</sup>	11,292	-	11,292
Unrestricted net assets, beginning of year	<u>217,485</u>	<u>-</u>	<u>217,485</u>
End of year:			
Held by University of California	216,552	-	216,552
Held by insurance carriers <sup>1</sup>	7,877	-	7,877
Held by insurance carriers <sup>2</sup>	82	-	82
Unrestricted net assets, end of year	<u>\$ 224,511</u>	<u>\$ -</u>	<u>\$ 224,511</u>

<sup>1</sup> University of California funds

<sup>2</sup> Employee funds



**University of California Health & Welfare Benefits Department**  
**Notes to Supplemental Combining Plan Information**  
**June 30, 2007**

---

**Retiree Health Contributions**

Assessments are charged to all University campuses and affiliates to offset the cost of the employer's portion of retiree health insurance. The assessment per \$100 of covered payroll was \$2.75 for the period January 1, 2007 to June 30, 2007. The Department of Energy National laboratories are charged based on actual costs of health insurance. The assessments generated employer contributions toward medical and dental benefits for retirees, their families, and survivors of \$115.4 million for the period ended June 30, 2007. The Department of Energy National laboratories are charged based on actual costs of health insurance.

Retiree health benefit costs are funded on a pay-as-you-go basis. To the extent the assessments that generate employer contributions toward retiree health are less than the retiree health cost and an allocation of administrative expenses, unrestricted net assets are used to supplement employer contributions. Unrestricted net assets used to supplement employer contributions to provide for retiree medical and dental benefits and administrative expenses totaled \$1.2 million for the six-month period ended June 30, 2007. The transfer of unrestricted net assets and University of California contribution are eliminated in the presentation of the combined total health and welfare plan activities.