February 15, 2005

Board of Regents
Committee on Audit
University of California
1111 Franklin Street, 10th Floor
Oakland, California 94607-5200

Attention: Ms. Anne C. Broome
Vice President – Financial Management

Subject: Letter of Arrangement

Ladies and Gentlemen:

The purpose of this letter is to confirm our understanding of the terms of our engagement as independent accountants of University of California (the “University” or “UC”).

Services and related report

We will perform separate audits for the year ending June 30, 2005 of the University’s basic financial statements, including the University, its discretely presented component units and the University of California Retirement System; the UC Davis, UC Irvine, UC Los Angeles, UC San Francisco and UC San Diego Medical Centers; the UC Retirement System; bond indenture statements; and agreed-upon procedures relative to the University’s Intercollegiate Athletics programs.

Upon completion of our audits, we will provide you with our audit reports on the basic financial statements referred to above.

In conjunction with the audit of the basic financial statements, we will report on the supplementary schedule of expenditures of federal awards in relation to those basic financial statements taken as a whole as required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

In addition, we will provide you with our report on our tests of the University’s compliance with certain provisions of laws, regulations, contracts and grants and on our consideration of its internal control over financial reporting, as required under Government Auditing Standards. If that report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, we will obtain and report the views of
responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

We also will audit the University’s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of the University’s major federal programs for the year ended June 30, 2005. On completion of the audit of compliance, we will provide you with our report on the University’s compliance with requirements applicable to each major federal program and on our consideration of its internal control over compliance, as required under OMB Circular A-133. If our auditing procedures disclose instances of noncompliance with those requirements, we will provide a schedule of findings and questioned costs as required by OMB Circular A-133. Further, we will complete Part I, Item 7, Auditor Information including the Auditor Statement; Part II, Financial Statements; and Part III, Federal Programs of the University’s Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations required by OMB Circular A-133.

We will also perform agreed-upon procedures relative to the University’s Intercollegiate Athletics Programs at selected campuses for the year ending June 30, 2005 to assist the University in complying with NCAA Constitution Provision 6.2.3. These agreed upon procedures will include the minimum procedures set forth in the NCAA Audit Guide and are in compliance with standards established by the American Institute of Certified Public Accountants. These procedures are agreed upon by the University, who is responsible for their sufficiency, and are solely to assist you in compliance with NCAA Constitution Provision 6.2.3. We make no representation as to the sufficiency of these procedures for your purposes. We will have no responsibility to update our report for events and circumstances occurring after the date of these reports.

If, for any reasons caused by you or relating to the affairs of the University, we are unable to complete the audits or agreed-upon procedures, we may decline to issue our reports as a result of this engagement.

Under generally accepted accounting principles promulgated for governmental organizations in the United States of America, management’s discussion and analysis (MD&A) and certain other information are required supplementary information (RSI). In connection with the University’s presentation of RSI, we will apply certain limited procedures and report deficiencies in, or the omission of, such information. However, we have not been engaged to examine and, accordingly, will not express an opinion, or any other form of assurance, on RSI.

You confirm that any requirements for the Regents’ Committee on Audit approval of our services have been complied with relating to this engagement.
Our responsibilities and limitations

Audit of basic financial statements

The objective of an audit is the expression of an opinion on the basic financial statements. We will be responsible for performing the audit in accordance with auditing standards generally accepted in the United States of America and, with respect to the financial statements, the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Additionally, we may modify or redirect certain of the procedures applied in our audit of the basic financial statements in order that we may express an opinion on the supplementary schedule of federal awards in relation to the basic financial statements taken as a whole.

We will consider the University’s internal control over financial reporting solely for the purpose of determining the nature, timing and extent of auditing procedures necessary for expressing our opinion on the basic financial statements. This consideration will not be sufficient to enable us to provide assurance on the effectiveness of internal control over financial reporting. We will include in our report on our tests of internal control over financial reporting and in the schedule of findings and questions and questioned costs any reportable conditions, identifying those we believe to be material weaknesses, as required under Government Auditing Standards. Deficiencies in internal control that are not reportable conditions will be communicated separately in a management letter unless those deficiencies are clearly inconsequential.

We will design our audit to obtain reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the basic financial statements as well as other illegal acts or violations of provisions of contracts or grant agreements having a direct and material effect on financial statement amounts. Our audit will not include a detailed audit of transactions, such as would be necessary to disclose errors or fraud that did not cause a material misstatement of the basic financial statements. It is important to recognize that there are inherent limitations in the auditing process. Audits are based on the concept of selective testing of the data underlying the basic financial statements, which involves judgment regarding the areas to be tested and the nature, timing, extent and results of the tests to be performed. Audits are, therefore, subject to the limitation that material errors or fraud or other
illegal acts or violations of provisions of contracts or grant agreements having a direct and material financial statement impact, if they exist, may not be detected. Because of the characteristics of fraud, particularly those involving concealment through collusion, falsified documentation and management’s ability to override controls, an audit designed and executed in accordance with auditing standards generally accepted in the United States of America may not detect a material fraud. Further, while effective internal control reduces the likelihood that errors, fraud, other illegal acts, or violations of provisions of contracts or grant agreements will occur and remain undetected, it does not eliminate that possibility. For these reasons we cannot ensure that errors, fraud, other illegal acts, or violations of provisions of contracts or grant agreements, if present, will be detected. Additionally, we are unable to, nor are we expected to, design our audit to obtain reasonable assurance of detecting abuse (as that term is defined in Government Auditing Standards), because the determination of abuse is subjective. Our tests will not be sufficient to enable us to provide assurance on the University's compliance with provisions of laws, regulations, contracts and grants. However, our report on such tests will identify any instances of fraud or illegal acts reportable under auditing standards generally accepted in the United States of America as well as significant violations of provisions of contracts or grant agreements and significant abuse reportable under Government Auditing Standards. Lesser violations of provisions of contracts or grants or abuse will be communicated separately in a management letter unless clearly inconsequential.

As required by Government Auditing Standards, we will follow up on known significant findings and recommendations from previous audits that directly relate to the objectives of the audit being undertaken, including those related to reportable conditions, to determine whether the University has taken timely and appropriate corrective actions. We are required to report the status of any uncorrected findings and recommendations that were included in prior audit reports that affect the current financial statement audit. In addition, OMB Circular A-133 requires us to follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the University, and report, as a current year audit finding, if we conclude that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.

We will perform certain procedures directed at considering the UC Retirement System’s compliance with Internal Revenue Code requirements for tax-exempt status, including as applicable inspecting the UC Retirement System’s latest tax determination letter from the IRS. As we perform our audit, we will be aware of the possibility that events affecting the UC Retirement System’s tax status may have occurred. These procedures do not constitute an examination or review for the purpose of determining compliance with the Internal Revenue Code or other regulations. However, any instances of tax non-compliance identified during our audit will be communicated to you.
Audit of compliance with requirements applicable to each major federal program

We will be responsible for performing the audit of compliance with requirements applicable to each major federal program in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards; and OMB Circular A-133. You have informed us that no equivalent state requirements exist. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with those requirements that could have a material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University’s compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We also will make a determination as to whether the University is a “low risk auditee” as defined in OMB Circular A-133 for purposes of determining the required coverage of our tests of internal control and compliance related to major federal programs. The audit does not provide a legal determination of the University’s compliance with those requirements. We will, however, include in the Schedule of Findings and Questioned Costs instances of noncompliance required to be reported under OMB Circular A-133.

We will consider the University’s internal control over compliance with requirements that could have a material effect on a major federal program to determine the auditing procedures necessary for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. This consideration will not be sufficient to enable us to provide assurance on the effectiveness of internal control over compliance with requirements applicable to major federal programs. We will, however, include in our report on internal control over compliance and in the Schedule of Findings and Questioned Costs any reportable conditions, identifying those we believe to be material weaknesses, as required under OMB Circular A-133.

Other

We also are responsible for determining that the President, Senior VP Business & Finance, VP Financial Management and the Regents’ Committee on Audit is informed about certain other matters related to the conduct of the audit, including (i) any disagreements with management about matters that could be significant to the University’s basic financial statements or our report thereon; (ii) any serious difficulties encountered in performing the audit; (iii) information relating to our independence with respect to the University; and (iv) other matters related to the University’s basic financial statements including its accounting policies and practices. Lastly, we are responsible for ensuring that the President, Senior VP Business & Finance, VP Financial Management and the Regents’ Committee on Audit receives copies of
certain written communications between us and management, including management representation letters and written communications on accounting, auditing, internal control or operational matters.

The audits will not be planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of a possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

The University acknowledges that it engages PricewaterhouseCoopers LLP from time to time in certain non-audit services including, but not limited to, the completion of agreed-upon procedures reports, forensic audits, advice on implementation of accounting standards and expanded audit procedures. In connection with such services, management agrees to designate a management level individual to be responsible for overseeing and monitoring their performance. In addition, management will make any decisions that involve management functions and evaluate the adequacy of their performance.

*Government Auditing Standards* require that we communicate the results of our Firm's most recent external quality control review to you which is for the year ended June 30, 2003. This report resulted in an unqualified opinion on the Firm’s system of quality control. A copy of that report is appended to this letter.

The University and PricewaterhouseCoopers LLP understand that the above-referenced reports to be issued by PricewaterhouseCoopers LLP are a public record and, as such, are subject to the California Public Records Act (California Government Code section 6250).

*Management's responsibilities*

The University’s management is responsible for the basic financial statements referred to above. In this regard, management is responsible for properly recording transactions in the accounting records and for establishing and maintaining internal control sufficient to permit the preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America. Management also is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us (i) about all known or suspected fraud affecting the University involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the basic financial statements; and (ii) of its knowledge of any allegations of fraud or suspected fraud affecting the University received in communications from employees, former employees, analysts, regulators, short sellers, or others. Management is responsible for (i) adjusting the basic financial statements to correct
material misstatements and for affirming to us that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the year under audit are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole; and (ii) notifying us of all material weaknesses, including reportable conditions which represent significant deficiencies, in the design or operation of the University’s internal control over financial reporting that are reasonably likely to adversely affect the University’s ability to record, process, summarize and report external financial data reliably in accordance with generally accepted accounting principles. Compliance with laws, regulations, and provisions of contracts and grants applicable to the University also is the responsibility of the University’s management.

As part of management’s responsibility for the basic financial statements and the effectiveness of internal control over financial reporting, management is responsible for making available to us, on a timely basis, all of the University's original accounting records and related information, documentation of compliance matters and University personnel to whom we may direct inquiries. As required by auditing standards generally accepted in the United States of America, Government Auditing Standards and OMB Circular A-133, we will make specific inquiries of management and others about the representations embodied in the basic financial statements and the effectiveness of internal control over financial reporting and on compliance with the requirements applicable to each major federal program. Auditing standards generally accepted in the United States of America also require that we obtain written representations covering audited basic financial statements and matters related to federal awards from certain members of management. The results of our audit tests, the responses to our inquiries and the written representations comprise the evidential matter we intend to rely upon in forming our opinion on the basic financial statements and on compliance with the requirements to each major federal program.

Under Government Auditing Standards, management is responsible for (i) resolving audit findings and recommendations directed to them and for having a process to track their status; (ii) taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that may be identified in our reports; and (iii) providing its views on our reported findings and recommendations, as well as management’s planned corrective actions, the timing of such planned actions, and the University official responsible for such actions. Additionally, management is responsible for following up and taking corrective actions on audit findings associated with OMB Circular A-133, including preparation of a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for identifying in its accounts all federal awards received and expended and the federal programs under which they were received, and for preparation of the supplemental schedule of expenditures of federal awards that is required by OMB Circular A-
133. Management also is responsible for ensuring that the reporting package (basic financial statements, supplementary schedule of expenditures of federal awards, auditor’s reports, and any summary schedules of prior audit findings and corrective action plans) is distributed to the appropriate parties. Additionally, management is responsible for completion of Part I of the aforementioned data collection form (except for Item 7) that is required under OMB Circular A-133.

Other documents

Auditing standards generally accepted in the United States of America require that we read any annual report that contains our audit report. The purpose of this procedure is to consider whether other information in the annual report, including the manner of its presentation, is materially inconsistent with information appearing in the basic financial statements. We assume no obligation to perform procedures to corroborate such other information as part of our audit.

If the University intends to publish or otherwise reproduce our reports in a debt offering circular, a private placement memorandum or other similar related financing document, the University agrees that management (through the University of California Office of Financial Management) will provide us with a final draft of the document to read. As a result of our reading of the draft document we have been provided, PricewaterhouseCoopers LLP may, but need not, offer comments that the University may consider. In addition, PricewaterhouseCoopers LLP will consider the facts and circumstances existing at the time of our reading as a basis for recommending any changes or other modifications. While the scope of our engagement includes a reasonable level of such services, it does not include an extensive level of such services that are comprehended by this paragraph and the scope of such services would be subject to our mutual agreement at such time such services are provided and would be described in a separate engagement letter or addendum to this letter.
Release and indemnification

PricewaterhouseCoopers LLP agrees to indemnify, defend and hold harmless the University, its Regents, officers, agents and employees from any and all third party claims, liabilities, costs, and expenses, including reasonable attorneys fees, but only to the extent that such claims, liabilities, costs and expenses are caused by the gross negligence, willful misconduct or fraudulent behavior of PricewaterhouseCoopers relating to the audit services to be provided under this agreement.

The University agrees to indemnify, defend and hold harmless PricewaterhouseCoopers LLP and its personnel from any and all third party claims, liabilities, costs and expenses, including reasonable attorneys fees, but only to the extent that such claims liabilities, costs and expenses are caused by the gross negligence, willful misconduct or fraudulent behavior of the University relating to the audit services to be provided under this agreement.

PricewaterhouseCoopers LLP understands and agrees to comply with all applicable provisions of the California Public Records Act.

Because of the importance of oral and written management representations to an effective audit, the University releases and indemnifies PricewaterhouseCoopers LLP and its personnel from any and all claims, liabilities, costs and expenses attributable to any knowing misrepresentation by management.

In the unlikely event that differences concerning our services or fees should arise that are not resolved by mutual agreement, to facilitate judicial resolution and save time and expense of both parties, the University and PricewaterhouseCoopers LLP agree not to demand a trial by jury in any action, proceeding or counterclaim arising out of or relating to our services and fees for this engagement.

Timing and fees

Completion of our work is subject to, among other things, 1) appropriate cooperation from the University's personnel including timely preparation of necessary schedules, 2) timely responses to our inquiries, and 3) timely communication of all significant accounting and financial reporting matters. When and if for any reason the University is unable to provide such schedules, information and assistance, PricewaterhouseCoopers LLP and the University will mutually revise the fee to reflect additional services, if any, required of us to complete the audit.
Such revisions will be set forth in the form of the attached “Amendment to Existing Engagement Letter.”

The following is the schedule for issuance of all reports in the absence of circumstances that dictate a change that is mutually-agreed upon:

- **Opinion on the basic financial statements** | September 16, 2005
- **Opinion on the University Retirement System** | September 16, 2005
- **Opinions on the individual medical centers** | September 16, 2005
- **Issuance date for the management letters to the individual Campuses and the Office of the President and Required Communications with The Regents’ Committee on Audit** | October 31, 2005
- **Issuance date for the Revenue Bond indenture reports** | October 31, 2005
- **Issuance date for the NCAA agreed-upon procedures reports** | December 31, 2005
- **Issuance date for all reports required under OMB Circular A-133** | March 15, 2006

Our fee estimates are based on the time required by the individuals assigned to the engagement. We estimate our fees for these engagements, including expenses, will be $3,275,045 for the financial statement audits and agreed-upon procedures and the audit of compliance with requirements applicable to each major federal program, subject to the terms and conditions above. This estimate is inclusive of expanded procedures at the University’s Department of Energy laboratories. We also will advise management should any other circumstances arise which may cause actual time or expenses to exceed that estimate.

Our fees, including out-of-pocket expenses, will be billed according to the attached schedule and are due upon receipt.

We may use temporary contract staff to perform certain tasks on your engagement and will bill for that time at the rate that corresponds to PwC staff providing a similar level of service. Upon request, we will be happy to provide details on the training, supervision and billing arrangements we use in connection with these professionals.

**Other matters**

PricewaterhouseCoopers LLP is owned by professionals who hold CPA licenses as well as by professionals who are not licensed CPAs. Depending on the nature of the services we provide, non-CPA owners may be involved in providing services to you now or in the future.

Any additional services that you may request and we agree to provide will be the subject of separate written agreements.
We may be requested to make certain working papers available to government regulators pursuant to authority given to them by law or regulation. If requested, access to such working papers will be provided under the supervision of PricewaterhouseCoopers LLP personnel. Furthermore, upon request, we may provide copies of selected working papers to the above regulator(s). These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

In the event we are requested or authorized by you or required by government regulation, subpoena, or other legal process to produce our working papers or our personnel as witnesses with respect to our engagement for you, you will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such a request.

The University agrees that it will not, directly or indirectly, agree to assign or transfer any claim against PricewaterhouseCoopers LLP arising out of this engagement to anyone.

This engagement letter reflects the entire agreement between us relating to the services covered by this letter. It replaces and supersedes any previous proposals, correspondence and understandings, whether written or oral. The agreements of the University and PricewaterhouseCoopers LLP contained in this engagement letter shall survive the completion or termination of this engagement.

* * * * *

If you have any questions, please call Mike Schini at 408-817-4478. If the services outlined herein are in accordance with your requirements and if the above terms are acceptable to you, please have one copy of this letter signed in the space provided below and return it to us.

Very truly yours,

PricewaterhouseCoopers LLP

The services and terms as set forth in this letter are agreed to.

University of California
Board of Regents
University of California
February 15, 2005

By: __________________________________________
    Ms. Anne C. Broome
    Vice President – Financial Management

___________________________________________
Date

cc:  President Dynes
     Chair of the Regents Committee on Audit
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Amendment # to Existing Engagement Letter

[Date]

Board of Regents
Committee on Audit
University of California
1111 Franklin Street, 10th Floor
Oakland, California 94607-5200

Ladies and Gentlemen:

This letter reflects our agreement to amend our engagement letter of February 15, 2005 with the University of California (the “University”) in the following respect[s].

As discussed and as a result of this change, we estimate that an additional $ in fees will be incurred. All other provisions of our engagement letter of February 15, 2005 with the University remain unchanged.

If you have any questions, please call Michael Schini at 408-817-4478. Please have one copy of this letter signed in the space provided below acknowledging your agreement and return it to us.

Very truly yours,

PricewaterhouseCoopers LLP