**New Issue – Book-Entry Only**

**Ratings: Moody's: "Aa2"**
**S&P: "AA"**
**See "RATINGS" herein**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Infrastructure Bank, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2016A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2016A Bonds. See "TAX MATTERS" herein.*

# $54,280,000
# CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
## Revenue Bonds (Sanford Consortium Project)
## SERIES 2016A

**Dated: Date of Delivery** **Due: May 15, as shown on the inside cover**

The California Infrastructure and Economic Development Bank (the "Infrastructure Bank") is issuing $54,280,000 aggregate principal amount of its Revenue Bonds (Sanford Consortium Project) Series 2016A (the "Series 2016A Bonds") pursuant to an Indenture of Trust, dated as of October 1, 2016 (the "Indenture"), between the Infrastructure Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Infrastructure Bank will lend the proceeds of the Series 2016A Bonds to Sanford Consortium for Regenerative Medicine (the "Borrower"), pursuant to a Loan Agreement, dated as of October 1, 2016 (the "Loan Agreement"). The Borrower will use the proceeds, together with other available moneys, to: (i) advance refund the California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2010A, and (ii) fund the costs of issuance. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Regents of the University of California ("The Regents") will enter into a Debt Service Payment Agreement, dated as of October 1, 2016 (the "Debt Service Payment Agreement"), pursuant to which The Regents shall make debt service payments to the Trustee in an amount equal to the principal of, premium, if any, and interest on the Series 2016A Bonds, to the extent amounts received by the Trustee under the Indenture are not fully sufficient to make such debt service payments.

Payments of principal of, premium, if any, and interest on the Series 2016A Bonds will be made solely from loan payments made by the Borrower under the Loan Agreement, from payments made by The Regents under the Debt Service Payment Agreement, and from moneys attributable to proceeds of the Series 2016A Bonds and the temporary investments thereof.

The Infrastructure Bank is offering the Series 2016A Bonds on the basis of the financial strength of the University of California (the "University") and The Regents' obligation to make debt service payments under the Debt Service Payment Agreement, rather than on the financial strength of the Borrower. The Debt Service Payment Agreement provides that The Regents' obligation to make debt service payments is absolute and unconditional, including that such payment obligation is not contingent upon occupancy of the Consortium Facility Project or subject to abatement in the event of damage or destruction of the Consortium Facility Project. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS – The Debt Service Payment Agreement."

**The Series 2016A Bonds are subject to optional, mandatory and special redemption as described herein.**

See "INVESTMENT CONSIDERATIONS" herein for a description of factors that investors should consider in deciding whether to purchase the Series 2016A Bonds. This cover page is not a summary of this issue. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision.

**THE SERIES 2016A BONDS ARE LIMITED OBLIGATIONS OF THE INFRASTRUCTURE BANK AND ARE NOT A LIEN OR CHARGE UPON THE FUNDS OR PROPERTY OF THE INFRASTRUCTURE BANK, EXCEPT TO THE EXTENT OF THE PLEDGE AND THE ASSIGNMENT PROVIDED FOR IN THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR THE INFRASTRUCTURE BANK SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR THE INTEREST ON THE SERIES 2016A BONDS, EXCEPT FROM REVENUES RECEIVED BY THE INFRASTRUCTURE BANK AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2016A BONDS. THE SERIES 2016A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK, PAYABLE SOLELY FROM REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWERS.**

The Infrastructure Bank will issue the Series 2016A Bonds as fully registered bonds without coupons in denominations of $5,000 and any multiple thereof. The Series 2016A Bonds will bear interest from the Date of Delivery, payable semiannually on each May 15 and November 15, commencing May 15, 2017 (each, an "Interest Payment Date"). The Series 2016A Bonds will be initially registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. See "THE SERIES 2016A BONDS" herein.

*The Series 2016A Bonds are offered when, as, and if issued by the Infrastructure Bank and by the Underwriters, subject to prior sale or withdrawal or modification of the offer without notice and subject to an approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Infrastructure Bank. Certain tax matters will be passed upon by Bond Counsel to the Infrastructure Bank. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, The Regents by its Office of General Counsel; the Borrower by its counsel Latham & Watkins LLP and Rodriguez, Horii, Choi & Cafferata LLP; and the Underwriters by their counsel Nixon Peabody LLP. It is expected that the Series 2016A Bonds will be available for delivery to DTC in New York, New York on or about October 6, 2016.*

**Barclays Capital** **Raymond James**

Dated: September 28, 2016

## MATURITY AND PRICING SCHEDULE

## SERIES 2016A BONDS

| Maturity (May 15) | Principal Amount | Interest Rate | Yield | CUSIP No.[1] |
|---|---|---|---|---|
| 2017 | $ 970,000 | 4.000% | 0.790% | 13034APJ3 |
| 2018 | 1,290,000 | 4.000 | 0.840 | 13034APK0 |
| 2019 | 1,345,000 | 5.000 | 0.900 | 13034APL8 |
| 2020 | 1,415,000 | 5.000 | 0.960 | 13034APM6 |
| 2021 | 1,490,000 | 5.000 | 1.000 | 13034APN4 |
| 2022 | 1,565,000 | 5.000 | 1.110 | 13034APP9 |
| 2023 | 1,645,000 | 5.000 | 1.210 | 13034APQ7 |
| 2024 | 1,730,000 | 5.000 | 1.320 | 13034APR5 |
| 2025 | 1,820,000 | 5.000 | 1.420 | 13034APS3 |
| 2026 | 1,910,000 | 5.000 | 1.510 | 13034APT1 |
| 2027 | 2,010,000 | 5.000 | 1.640[C] | 13034APU8 |
| 2028 | 2,110,000 | 5.000 | 1.820[C] | 13034APV6 |
| 2029 | 2,220,000 | 5.000 | 1.930[C] | 13034APW4 |
| 2030 | 2,335,000 | 5.000 | 2.020[C] | 13034APX2 |
| 2031 | 2,455,000 | 5.000 | 2.070[C] | 13034APY0 |
| 2032 | 2,580,000 | 5.000 | 2.130[C] | 13034APZ7 |
| 2033 | 2,715,000 | 5.000 | 2.180[C] | 13034AQA1 |
| 2034 | 2,850,000 | 5.000 | 2.240[C] | 13034AQB9 |
| 2035 | 2,980,000 | 4.000 | 2.580[C] | 13034AQC7 |
| 2036 | 3,105,000 | 4.000 | 2.620[C] | 13034AQD5 |
| 2037 | 3,230,000 | 4.000 | 2.650[C] | 13034AQF0 |

$10,510,000 4.000% Term Bond due May 15, 2040 – Yield 2.720% [C] CUSIP No. 13034AQE3[1]

(1) Copyright 2016, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (CGS), which is managed on behalf of the American Bankers Association by S&P Capital IQ. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the registered owners of the applicable Bonds. None of the Infrastructure Bank, the Borrower, The Regents or the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2016A Bonds.

C Yield to par call on May 15, 2026.

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2016A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016A BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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

**No representation is made that past experience, as it might be shown by financial and other information, will necessarily continue or be repeated in the future. See "FORWARD-LOOKING STATEMENTS" herein.**

**No dealer, broker, salesperson, or any other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby, and, if given or made, such information or representations must not be relied upon as having been authorized by the Infrastructure Bank, the Borrower, The Regents or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder will under any circumstances create any implication that there has been no change in the affairs of the Infrastructure Bank, The Regents or the Borrower since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.**

**This Official Statement is not to be construed as a contract with the purchasers of the Series 2016A Bonds. Statements which involve estimates, forecasts, or matters of opinion whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.**

**THE SERIES 2016A BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.**

**THE SERIES 2016A BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR WITH THE SECURITIES COMMISSION OR ANY REGULATORY AUTHORITY OF ANY STATE, NOR HAS THE SEC OR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**The information set forth herein under the captions "THE INFRASTRUCTURE BANK" and "NO LITIGATION – The Infrastructure Bank" has been furnished by the Infrastructure Bank. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Borrower or The Regents. Neither the approval nor the authorization of the Infrastructure Bank of the distribution of the Official Statement shall be construed as a representation that the Infrastructure Bank has reviewed or approved the accuracy or completeness of the Official Statement other than the information under the captions "THE INFRASTRUCTURE BANK" and "NO LITIGATION – The Infrastructure Bank." The information set forth herein under the caption "THE SERIES 2016A BONDS – Book-Entry Only System for the Series 2016A Bonds" hereto has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Infrastructure Bank, the Borrower or The Regents. All other information set forth herein has been obtained from the Borrower, The Regents and other sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Infrastructure Bank. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2016A Bonds made hereunder shall create under any circumstances any indication that there has been no change in the affairs of the Infrastructure Bank, the Borrower, The Regents or DTC since the date hereof.**

**Statements in this Official Statement are made as of the date hereof unless stated otherwise and neither the delivery of this Official Statement at any time, nor any sales thereunder, shall under any circumstances create an implication that the information contained herein is correct as of any time subsequent to the date hereof.**

**The references to internet websites in this Official Statement are shown for reference and convenience only; unless explicitly stated to the contrary, the information contained within the websites and any links contained within those websites are not incorporated herein by reference and does not constitute part of this Official Statement.**

**In making an investment decision, investors must rely on their own examination of the Borrower and the University and the terms of the offering, including the merits and risks involved. Prospective investors should not construe the contents of this Official Statement as legal, tax or investment advice.**

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## SUMMARY STATEMENT

*The following Summary Statement is qualified in its entirety by the more detailed information contained elsewhere in this Official Statement and the appendices hereto (collectively, this "Official Statement"). The offering of the Series 2016A Bonds to potential investors is made only by means of this entire Official Statement, and no person is authorized to detach the following Summary Statement from this Official Statement or to use it otherwise without the entire Official Statement.*

**The Infrastructure Bank** The California Infrastructure and Economic Development Bank (the "Infrastructure Bank") is a public instrumentality of the State of California (the "State") organized pursuant to the laws of the State, particularly the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division I of Title 6.7 (commencing with Section 63000) of the California Government Code, as amended (the "Act"). See "THE INFRASTRUCTURE BANK" herein.

**The Consortium Facility Project** The Consortium Facility Project, known as the "Sanford Consortium for Regenerative Medicine Research Building" is a five-story, (one story below grade and four stories above grade), approximately 150,000 square-foot research laboratory facility, designed to expand collaborative work in stem cell research and facilitate the translation of that research into tools and techniques to diagnose and treat degenerative diseases and other ailments. The Consortium Facility Project was developed on a site leased by the Borrower from The Regents at the San Diego campus of the University (as defined below). Construction of the Consortium Facility Project commenced in December, 2009, with substantial completion occurring in late 2011 and research commencing in January, 2012. For additional information regarding the Consortium Facility Project, see "THE CONSORTIUM FACILITY PROJECT" herein.

**The Borrower** Sanford Consortium for Regenerative Medicine (the "Borrower") is a California non-profit public benefit corporation. The Infrastructure Bank will loan the proceeds of the Series 2016A Bonds to the Borrower pursuant to a Loan Agreement, dated as of October 1, 2016 (the "Loan Agreement"), between the Infrastructure Bank and the Borrower. The Borrower will use the proceeds of the loan, together with other available moneys, to: (i) refund the California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2010A and (ii) pay costs of issuance. See "THE BORROWER" and "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

**The Series 2016A Bonds** The Infrastructure Bank is issuing $54,280,000 aggregate principal amount of revenue bonds to be designated "California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2016A" (the "Series 2016A Bonds") pursuant to an Indenture of Trust, dated as of October 1, 2016 (the "Indenture"), between the Infrastructure Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). See "THE SERIES 2016A BONDS" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

**Security for the Bonds**

The Infrastructure Bank will enter into the Indenture, pursuant to which it will transfer, assign and set over to the Trustee all of the Revenues and any and all rights and privileges, other than the Reserved Rights, it has under the Loan Agreement, including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest. Any Revenues collected or received by the Infrastructure Bank will be deemed to be held and to have been collected or received by the Infrastructure Bank for the benefit of the Owners of the Series 2016A Bonds and will be paid by the Infrastructure Bank to the Trustee. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS" herein and APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS."

Pursuant to the Debt Service Payment Agreement (as defined below), The Regents (as defined below) is obligated to pay an amount equal to the Debt Service Shortfall (as defined below), if any, on the Series 2016A Bonds. See "SUMMARY STATEMENT – The Debt Service Payment Agreement" below.

**The University and The Regents**

The University of California (the "University") is a public institution of higher education founded in 1868. It currently operates general campuses located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, Santa Barbara and Santa Cruz; a health science campus located in San Francisco; and laboratories, research stations and institutes, affiliated schools, activity locations, and a statewide Division of Agriculture and Natural Resources. The California State Constitution provides that the University shall be a public trust administered by the corporation, The Regents of the University of California ("The Regents"), which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and the compliance with certain statutory and administrative requirements. The governing board of the University is composed of 26 members, a majority of whom are appointed by the Governor of the State and approved by a majority vote of the State Senate. See "THE UNIVERSITY AND THE REGENTS" herein and APPENDIX A – "THE UNIVERSITY OF CALIFORNIA" and APPENDIX B – "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015."

**UCSD**

The University of California, San Diego ("UCSD") is a campus of the University, located in San Diego, California. The Consortium Facility Project is located on the UCSD campus and is utilized by UCSD and the other Collaboratory Members (as hereinafter defined) for research purposes. See "THE UNIVERSITY OF CALIFORNIA, SAN DIEGO" and "THE CONSORTIUM FACILITY PROJECT" herein.

**The Debt Service Payment Agreement**

The Regents will enter into a debt service payment agreement (the "Debt Service Payment Agreement") pursuant to which it will unconditionally, absolutely and irrevocably covenant to pay in full debt service on the Series 2016A Bonds, as the same becomes due and payable in accordance with the Indenture, to the extent the funds then available to the Trustee under the Indenture are not fully sufficient to pay such debt service (the "Debt Service Shortfall"). The Regents will pay to the Trustee by wire transfer an amount equal to the Debt Service Shortfall not later than the Business Day prior to the date on which such debt service is required to be paid under the Indenture (the "Debt Service Payment Date"). Debt Service Payment Agreement provides that The Regents' obligation to make Debt Service Shortfall payments under the Debt Service Payment Agreement is absolute and unconditional, including that such payment obligation is not contingent upon occupancy of the Consortium Facility Project and that such obligation is not subject to abatement in the event of damage or destruction of the Consortium Facility Project. The Regents is not required to pay and is not liable under any circumstances for any consequential, indirect or punitive damages, opportunity costs or lost profits relating to the Series 2016A Bonds or otherwise. In addition, The Regents is not required to make any payment from any of its funds that are not lawfully available to make such payment, including without limitation (a) any moneys which are restricted as to expenditure by a granting agency or donor or (b) educational appropriations made by the State. The Regents' obligations to make Monthly Base Rent payments under the Space Lease and to make Debt Service Shortfall payments under the Debt Service Payment Agreement are unsecured, general obligations of The Regents. "See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS – The Debt Service Payment Agreement" and "– Nature of The Regents' Obligations."

**Investment Considerations**

A description of factors that investors should consider in deciding whether to purchase the Series 2016A Bonds is included under "INVESTMENT CONSIDERATIONS" in this Official Statement.

**Continuing Disclosure**

No financial or operating data concerning the Collaboratory Members (other than The Regents) or the Infrastructure Bank is included or incorporated by reference in this Official Statement. Neither the Infrastructure Bank nor any of the Collaboratory Members (other than The Regents) have agreed to provide any such financial or operating data either currently or on an on-going basis. The Regents has covenanted for the benefit of the registered Owners and Beneficial Holders of the Series 2016A Bonds to provide financial information and operating data not later than seven months after the end of the University's Fiscal Year (which Fiscal Year currently ends June 30), commencing with the report for the Fiscal Year ending June 30, 2016. The Borrower has covenanted for the benefit of the registered Owners and Beneficial Holders of the Series 2016A Bonds to provide financial information and operating data not later than seven months after the end of the Borrower's Fiscal Year (which Fiscal year currently ends December 31), commencing with the report for the Fiscal Year ending December 31, 2016. In addition, The Regents and the Borrower have agreed to provide notices of the occurrence of certain enumerated events. See "CONTINUING DISCLOSURE" herein and APPENDIX F – "FORMS OF CONTINUING DISCLOSURE AGREEMENT."

| | |
|---|---|
| **Availability of Information** | Copies of this Official Statement and other relevant documents and information regarding the documents are available upon request from the Underwriters prior to the issuance and delivery of the Series 2016A Bonds and from the Trustee after the issuance and delivery of the Series 2016A Bonds. See "INTRODUCTORY STATEMENT," "SOURCES OF INFORMATION" and "MISCELLANEOUS" herein.<br><br>Statements in this Official Statement are made as of the date hereof unless stated otherwise and neither the delivery of this Official Statement at any time, nor any sales thereunder, shall under any circumstances create an implication that the information contained herein is correct as of any time subsequent to the date hereof. |

# OFFICIAL STATEMENT

## $54,280,000
## CALIFORNIA INFRASTRUCTURE AND
## ECONOMIC DEVELOPMENT BANK
## Revenue Bonds
## (Sanford Consortium Project)
## SERIES 2016A

### INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the appendices hereto, furnishes information in connection with the sale by the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") of $54,280,000 aggregate principal amount of revenue bonds to be designated "California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2016A" (the "Series 2016A Bonds"). The Infrastructure Bank will issue the Series 2016A Bonds under and pursuant to the Constitution and laws of the State of California (the "State"), particularly the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division I of Title 6.7 (commencing with Section 63000) of the California Government Code, as amended (the "Act"), and an Indenture of Trust, dated as of October 1, 2016 (the "Indenture"), between the Infrastructure Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

The Infrastructure Bank will lend the proceeds of the Series 2016A Bonds to Sanford Consortium for Regenerative Medicine (the "Borrower") pursuant to a Loan Agreement, dated as of October 1, 2016 (the "Loan Agreement"), between the Infrastructure Bank and the Borrower. The Borrower will use the proceeds, together with other available funds, to: (i) advance refund the Infrastructure Bank's Revenue Bonds (Sanford Consortium Project) Series 2010A (the "Refunded Bonds"), and (ii) fund costs of issuance. See "ESTIMATED SOURCES AND USES OF FUNDS" herein. The Consortium Facility Project is located on the San Diego campus of the University of California ("UCSD"). Pursuant to a Ground Lease, The Regents of the University of California ("The Regents") have leased to the Borrower the property on which the Consortium Facility Project is located and operating.

The Borrower is obligated pursuant to the Loan Agreement to make loan payments (the "Loan Payments") to the Infrastructure Bank in amounts calculated to be sufficient to pay the principal of, premium, if any, and interest on the Series 2016A Bonds, as the same mature and become due. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS" herein. The obligations of the Borrower under the Loan Agreement will be secured solely by the Borrower's irrevocable pledge of all of its rights in any Gross Revenues (as defined herein), and all amounts and securities in the funds held by the Trustee under the Indenture (other than the Rebate Fund).

On or prior to the date of the issuance of the Series 2016A Bonds, The Regents will enter into a Debt Service Payment Agreement (the "Debt Service Payment Agreement") to provide additional security for the Series 2016A Bonds. The Infrastructure Bank is offering the Series 2016A Bonds on the basis of the financial strength of the University and The Regents' obligation to make debt service payments, as provided in the Debt Service Payment Agreement, rather than on the financial strength of the Borrower. The Debt Service Payment Agreement provides that The Regents' obligation to make Debt Service Shortfall payments under the Debt Service Payment Agreement is absolute and unconditional, including that such payment obligation is not contingent upon occupancy of the Consortium Facility Project and that such obligation is not subject to abatement in the event of damage or destruction of the Consortium Facility Project. The Regents is not required to pay and is not liable under any circumstances for any consequential, indirect or punitive damages, opportunity costs or lost profits relating to the Series 2016A Bonds or otherwise. In addition, The Regents is not required to make any payment from any of its funds that are not lawfully available to make such payment, including without limitation (a) any moneys which are restricted as to expenditure by a granting agency or donor or (b) educational appropriations made by the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS – The Debt Service Payment Agreement" herein. The Debt Service Shortfall under the Debt Service Payment Agreement is equal to principal and interest on the Series 2016A Bonds, less amounts received by the Trustee from the Borrower.

THE SERIES 2016A BONDS ARE LIMITED OBLIGATIONS OF THE INFRASTRUCTURE BANK AND ARE NOT A LIEN OR CHARGE UPON THE FUNDS OR PROPERTY OF THE INFRASTRUCTURE BANK, EXCEPT TO THE EXTENT OF THE PLEDGE AND THE ASSIGNMENT PROVIDED FOR IN THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR THE INFRASTRUCTURE BANK SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR THE INTEREST ON THE SERIES 2016A BONDS, EXCEPT FROM REVENUES RECEIVED BY THE INFRASTRUCTURE BANK AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2016A BONDS. THE SERIES 2016A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK, PAYABLE SOLELY FROM REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWERS.

The Infrastructure Bank, pursuant to the Indenture, will transfer, assign and set over to the Trustee all of the Revenues and any and all rights and privileges, other than the Reserved Rights, it has under the Loan Agreement, including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest. Any Revenues collected or received by the Infrastructure Bank will be deemed to be held and to have been collected or received by the Infrastructure Bank for the benefit of the Owners of the Series 2016A Bonds and will be paid by the Infrastructure Bank to the Trustee. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS” herein.

Certain terms defined in the Indenture, the Loan Agreement and the Debt Service Payment Agreement are set forth in Appendix C attached to this Official Statement. Capitalized terms used but not defined herein or in Appendix C attached hereto have the same meanings as used in the Indenture unless the context clearly indicates otherwise. This Official Statement and the appendices hereto contain brief descriptions of, among other matters, the Infrastructure Bank, the Borrower, The Regents, the University, UCSD, the Consortium Facility Project, the Series 2016A Bonds, the Loan Agreement, the Ground Lease, the Space Lease, the Collaboratory Agreement, the Debt Service Payment Agreement and the Indenture. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Ground Lease, the Space Lease, the Collaboratory Agreement, the Debt Service Payment Agreement, the Loan Agreement and the Indenture (collectively, the “Bond Documents”) are qualified in their entirety by reference to such documents, and references herein to the Series 2016A Bonds are qualified in their entirety to the forms thereof included in the Indenture.

## THE INFRASTRUCTURE BANK

The California Infrastructure and Economic Development Bank (the “Infrastructure Bank”) is a public instrumentality of the State of California and is governed by a five-member board of directors consisting of the Director of the Governor’s Office of Business and Economic Development who serves as the Chairperson, the Director of the State’s Department of Finance, the State Treasurer, and the Secretary of the State Transportation Agency, or their respective designees, and an appointee of the Governor of the State. The business and affairs of the Infrastructure Bank are managed and conducted by its Executive Director. The Infrastructure Bank has no taxing power.

The 2016A Bonds are limited obligations of the Infrastructure Bank payable solely from the funds pledged therefor under the Indenture. The Infrastructure Bank makes no representations with respect to the accuracy or completeness of the statements and information set forth in this Official Statement, other than the information set forth in this section and in the subsection entitled “NO LITIGATION – The Infrastructure Bank” herein, the Infrastructure Bank makes no representations with respect to the accuracy or completeness of the statements and information set forth herein.

## THE CONSORTIUM FACILITY PROJECT

The Consortium Facility Project, known as the "Sanford Consortium for Regenerative Medicine Research Building," is a five-story (one story below grade and four stories above grade), approximately 150,000 square-foot research laboratory facility designed to expand collaborative work in stem cell research and facilitate its translation into tools and techniques to diagnose and treat degenerative diseases and other ailments. The Consortium Facility Project was developed on a site leased by the Borrower from The Regents on the campus of UCSD. The Consortium Facility Project includes laboratory space, office space, core facility and science and building support spaces.

The Regents and the Borrower have entered into the Ground Lease (as defined below) pursuant to which the Borrower has leased from The Regents the land on which the Consortium Facility Project is located and operating. The Regents occupy approximately 85% of the Consortium Facility Project pursuant to the Space Lease and the Collaboratory Agreement (each as defined below).

The Collaboratory Members (as defined below) have licensed and occupy space in the Consortium Facility Project, pursuant to a Collaboratory Agreement (as defined below). The Regents, in its capacity as a Collaboratory Member, occupies and licenses 17 of the 24 total modules licensed by the Collaboratory Members within the Consortium Facility Project. The Collaboratory Members will pay monthly license fees, pursuant to the Collaboratory Agreement with the Borrower, for licensed space within the Consortium Facility Project. In consideration of The Regents entering into the Debt Service Payment Agreement, the Borrower has granted to The Regents the right to license and occupy additional space in the Consortium Facility Project, in excess of the 17 modules The Regents is currently licensing from the Borrower under the Collaboratory Agreement, that may be available as a result of and upon the failure of any Collaboratory Member to make full and timely payment of its monthly license fee pursuant to the Collaboratory Agreement. See "THE GROUND LEASE" and "THE COLLABORATORY AGREEMENT AND THE SPACE LEASE."

Construction of the Consortium Facility Project was funded with the proceeds of the Refunded Bonds and the CIRM Grant Funding (as defined below) and the Sanford Gift (as defined below).

In November 2004, California voters approved Proposition 71, a statewide ballot initiative which established the California Institute for Regenerative Medicine ("CIRM") and authorized the issuance of $3 billion in public bond funds to fund stem cell research in the State. In May 2008, CIRM awarded $43 million to the Borrower (the "CIRM Grant Funding") for use to construct and equip the Consortium Facility Project. The CIRM Grant Funding was deposited into an escrow account in May 2009 and was fully allocated in early 2013.

On April 25, 2008, the Borrower and T. Denny Sanford, a Sioux Falls, South Dakota philanthropist, executed a Charitable Gift Agreement pursuant to which Mr. Sanford agreed to contribute to the Borrower the sum of $30 million (the "Sanford Gift"). On October 28, 2009, the Borrower and Mr. Sanford amended the Charitable Gift Agreement to change the total amount of the Sanford Gift to $27,250,000 and to provide an accelerated payment schedule. As of July 1, 2013, the entire Sanford Gift has been received by the Borrower.

## THE BORROWER

The Borrower is a non-profit public benefit corporation organized under the laws of the State. The Borrower was organized in 2006 for the charitable and public purposes of expanding collaborative work in stem cell research and facilitating its translation into clinical cures.

### Management Structure and Appointment

A Board of Directors (the "Board") governs the Borrower. The Board is comprised of two groups of directors: Community Board Members and Institutional Board Members (each as defined below and collectively, the "Board Members"). Currently, the bylaws require a Board composed of 11 members consisting of one director nominated by each of the five Collaboratory Members (the "Institutional Board Members"), the Vice Chancellor for Health Sciences of UCSD, four directors nominated as community members (the "Community Board Members") and the President of the Borrower. Community Board Members are persons with substantial ties to San Diego

County who are not employed by any of the Collaboratory Members. The Board's Nominating Committee advances recommendations of new Community Board Members for consideration by the full Board. Institutional Board Members are nominated by each of the five Collaboratory Members (one member by each). Each Institutional Board Member nominated by a Collaboratory Member may only be appointed, removed and replaced by such Collaboratory Member and such appointment, removal or replacement does not require a vote of the Board.

Each Board Member is appointed for a term of three years, and there is no limit placed on the number of terms that each may serve.

The current members of the Board, and the end of their current terms, are set forth below:

| Board Members | Affiliation | Position | End of Term |
|---|---|---|---|
| Mr. Malin Burnham | Community Member | Board Chair | 2017 |
| Dr. Richard Atkinson | Community Member | Board Member | 2017 |
| Dr. Elizabeth Blackburn | Salk Institute for Biological Studies | Board Member | 2019 |
| Dr. David Brenner | Vice Chancellor for Health Sciences of UCSD | Board Member | 2018 |
| Dr. Edward Holmes | President/CEO, Borrower | Board Member | 2017 |
| Ms. Elizabeth Keadle | Community Member | Board Member | 2019 |
| Dr. Pradeep Khosla | UCSD | Board Member | 2018 |
| Dr. Mitchell Kronenberg | La Jolla Institute for Allergy and Immunology | Board Member | 2017 |
| Mr. Denny Sanford | Community Member | Board Member | 2017 |
| Dr. Peter Schultz | The Scripps Research Institute | Board Member | 2018 |
| Dr. Kristiina Vuori | Sanford Burnham Prebys Medical Discovery Institute | Board Member | 2018 |

The Bylaws of the Borrower govern the voting requirements for various actions to be taken by the Board and, in some cases, require the votes of Board Members that are appointed by the Collaboratory Members and/or UCSD. The Board is supported by several committees of the Board, including the Finance Committee, the Executive and Compensation Committee and the Audit Committee.

The Bylaws of the Borrower require that the Borrower have a President, one or more Vice Presidents (including one nominated by UCSD), a Secretary, and a Chief Financial Officer. The Board appoints the President and Chief Executive Officer of the Borrower. The management of the Borrower is under the direction of the President and Chief Executive Officer. The Secretary of the Borrower is Robin Samit, an employee of UCSD and the Chief Financial Officer of the Borrower is Kim Witmer, an employee of the Salk Institute for Biological Studies. The other principal members of the executive management team, with information concerning their backgrounds and experience, are set forth below.

***Edward W. Holmes, M.D., President and Chief Executive Officer.*** Edward W. Holmes, M.D., is currently President and Chief Executive Officer of the Borrower and Distinguished Professor of Medicine at the University and Emeritus Vice Chancellor/Dean of Health Sciences at UCSD. He is a member of both the Biomedical Research Council and the Executive Committee of the National Medical Research Council, Singapore. Dr. Holmes has served on numerous advisory boards including the National Diabetes and Digestive and Kidney Diseases Advisory Council of the National Institutes of Health, the Board of Directors of Tularik, and is a past-Chair of the Scientific Advisory Board of GlaxoSmithKline. He is a member of the American Society for Clinical Investigation and the Association of American Physicians, a Fellow of the American Association for the Advancement of Science, and a member of the National Academy of Medicine of the National Academy of Sciences. Dr. Holmes' previous positions include Chair of the Department of Medicine at the University of Pennsylvania; Senior Associate Dean for Research, Vice President of Translational Medicine and Clinical Research, and Special Counsel to the President of the University on Biomedical Research at Stanford University; and Dean of the School of Medicine at Duke University.

***Jeffrey A. Steindorf, Ph.D., Vice President and Chief Operating Officer.*** Jeff Steindorf guides the strategic direction and manages the administrative, capital, and financial operations of the Borrower. Previously (1980-2012,) as Associate Vice Chancellor for campus planning at UCSD, Dr. Steindorf provided leadership in near-term and long-range capital planning, enrollment planning, environmental impact analyses, physical planning, institutional research and indirect cost rate negotiations with the Department of Health and Human Services. Prior to assuming administrative responsibilities, he received individual support from the National Institutes of Health to conduct postdoctoral research (1977-1980) in cognition and decision-making at UCSD and from the National Science Foundation to train in quantitative methods at the Inter-university Consortium for Political and Social Research (1975) at the University of Michigan. Dr. Steindorf received his Ph.D. in Psychology from Northern Illinois University (1976.)

**Revenues of the Borrower**

Loan Payments under the Loan Agreement will be paid from the Borrower's Gross Revenues, including license fees and/or rent paid by Collaboratory Members or other tenants that occupy the Consortium Facility Project, investment income, and unrestricted gifts or grants received by the Borrower. The primary sources of revenues for the Borrower are as follows: (i) license fees and other amounts paid pursuant to the Collaboratory Agreement; (ii) rent and other amounts paid pursuant to the Space Lease; (iii) certain contract research organization revenue; (iv) other rental income; (v) investment income; and (vi) gifts and/or contributions. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS"

"Gross Revenues" is defined in the Indenture and means all revenues, income, including investment income, moneys, fees, rates, receipts, rentals, charges, issues and income received by or on behalf of the Borrower from all sources, including without limitation gifts, bequests, grants, devises, investments and contributions (exclusive of those gifts, bequests, grants, devises, investments and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of debt service on any Debt or operating expenses of the Borrower), moneys received from the operation of the Borrower's businesses or the possession of their properties, rentals received from the lease of office space, any payments received pursuant to the Collaboratory Agreement and proceeds derived from (i) insurance or condemnation awards (except to the extent such proceeds are required by the terms of the Loan Agreement (or other agreements with respect to the Debt which the Borrower is permitted to incur, or leases the Borrower is permitted to enter into) to be used for purposes inconsistent with their use for the payment of Loan Payments), (ii) accounts receivable, (iii) instruments, documents, investment property, securities and other investments, (iv) inventory and other tangible and intangible property, (v) research reimbursement/payment program and agreements, (vi) insurance and (vii) accounts, contract rights and other rights and assets now or hereafter owned by the Borrower (exclusive of revenues received with respect to contract rights to the extent specifically restricted by the term of such contract to a particular purpose inconsistent with their use for the payment of debt service on any Debt or operating expenses of the Borrower), and the proceeds thereof, in each case whether now existing or hereafter acquired.

*Collaboratory Agreement* – The Borrower has entered into a Collaboratory Agreement dated as of October 28, 2009 (as amended, the "Collaboratory Agreement"), with the La Jolla Institute for Allergy and Immunology, the Salk Institute for Biological Studies, the Burnham Institute for Medical Research, now doing business as the Sanford Burnham Prebys Medical Discovery Institute, The Scripps Research Institute ("Scripps") and The Regents (each a "Collaboratory Member" and collectively the "Collaboratory Members"), pursuant to which the Borrower granted to the Collaboratory Members a non-exclusive license to use space in the Consortium Facility Project for stem cell research. The Collaboratory Agreement is for an initial term of ten years which began on January 1, 2012. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Monthly License Fees" and "THE COLLABORATORY AGREEMENT AND THE SPACE LEASE – The Collaboratory Agreement" herein for a further discussion of the terms of the Collaboratory Agreement, including payments to be made to the Borrower thereunder as well as default and remedy provisions thereunder.

*Ground Lease* – The Regents and the Borrower have entered into a Ground Lease, dated as of October 28, 2009 (the "Ground Lease"), pursuant to which the Borrower, as tenant, has leased from The Regents, as landlord, the property on which the Consortium Facility Project has been constructed. The Borrower's use of the leased property is limited to the construction, maintenance, use and operation of the improvements composing the Consortium Facility Project, all as further described in the Ground Lease. See "THE GROUND LEASE" for a further discussion of the terms of the Ground Lease.

*Space Lease* – The Borrower and The Regents have entered into a Space Lease, dated as of October 28, 2009 (as may be amended from time to time, the "Space Lease") pursuant to which The Regents, as tenant, has leased a portion of the Consortium Facility Project research laboratory space in the Consortium Facility Project that will not be occupied for stem cell research ("Excess Space"). The Space Lease for such Excess Space is for an initial term of ten years which began on January 1, 2012. The Regents pays rent monthly in an amount equal to the share of the Borrower's debt service and operating expenses allocable to the Excess Space, plus any amount payable by the Borrower to The Regents under the Ground Lease. See SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Monthly Base Rent" and "THE COLLABORATORY AGREEMENT AND THE SPACE LEASE – The Space Lease" herein for a further discussion of the terms of the Collaboratory Agreement, including payments to be made to the Borrower thereunder as well as default and remedy provisions thereunder.

*Other Rent* – The Borrower entered into an agreement in 2013 with a third-party proprietor to operate the café at the Consortium Facility Project. Monthly rent paid to the Borrower includes a base rent of $3,500, plus an annual adjustment to the base rent on March 1 of each year for inflation, plus a percentage rent adjustment on March 1 of each year based on gross sales over the prior 12 months. The Borrower recognized associated rent totaling approximately $66,000 and $56,000 during the years ended December 31, 2015 and 2014, respectively.

The Borrower entered into an agreement in 2013 with a third-party contract research organization to provide research services through the operation and management of imaging equipment owned by the Borrower. This agreement is for a three-year term that commenced on January 27, 2014. The agreement stipulates that the Borrower will, on a quarterly basis, receive license fee payments from the third party (including royalty and equipment fee revenues) and facility fee revenues. In addition, the Borrower provided a quarterly credit of $125,000 to the third party for each of the initial four quarters of the term ending in January 2015. During the year ended December 31, 2015 and 2014, revenue recognized by the Borrower was approximately $130,000 and $58,000, respectively, and expenses recorded by the Borrower, for the quarterly credits were approximately $42,000 and $458,000, respectively.

*Other Income* – Included in the gross revenues received by the Borrower are fees paid for special events held at the Consortium Facility Project and an administration fee paid to the Borrower annually under an agreement between the Collaboratory Members and a third party. Revenue is also earned from third parties for use of the Borrower's facilities and for parking fees and from grants related to scientific conferences held at the Consortium Facility Project.

The Consortium Facility Project began operations in January, 2012. The following chart indicates the Support and Revenues for the Borrower for the last three fiscal years for which audited financial statements are available. The chart below has been prepared by management of the Borrower and has not been otherwise audited or reviewed by the Borrower's independent auditors. While in the past, the Borrower's audited financials indicated that a portion of the Borrower's revenues were in fact temporarily or permanently restricted (and hence not Gross Revenues), with respect to Fiscal Year ended December 31, 2015, Support and Revenues of the Borrower were equivalent to Gross Revenues, as the Borrower did not have any temporarily or permanently restricted revenues. See APPENDIX G – "AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR FISCAL YEARS ENDED DECEMBER 31, 2015 AND 2014. If the Borrower were to receive restricted gifts in future fiscal years, those would not be considered Gross Revenues under the Indenture. The Audited Financial Statements of the Borrower for such Fiscal Year will indicate if any revenues received by the Borrower are temporarily or permanently restricted.

| Fiscal Year Ended December 31 | Support and Revenues | Debt Service on 2010 Bonds |
|---|---|---|
| 2013 | $7,759,951* | $4,052,475 |
| 2014 | 7,823,130 | 4,047,750 |
| 2015 | 8,185,564 | 4,045,850 |

* Does not include any revenues of the Borrower classified as temporarily or permanently restricted for Fiscal Year ended December 31, 2013.

The financial statements of the Borrower as of and for the fiscal years ended December 31, 2015 and 2014, included herein as APPENDIX G – "AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR FISCAL YEARS ENDED DECEMBER 31, 2015 and 2014" have been audited by Moss Adams LLP, independent auditors, as stated in its report attached hereto as Appendix G. The Borrower has not requested that Moss Adams LLP provide consent for inclusion of its report on the audited financial statements in this Official Statement, and Moss Adams LLP has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.

*Debt Service Payment Agreement* – Pursuant to the Debt Service Payment Agreement, The Regents is obligated to pay in full the debt service on the Series 2016A Bonds, as the same becomes due and payable in accordance with the Indenture, to the extent the funds then available to the Trustee under the Indenture are not fully sufficient to pay such debt service (the "Debt Service Shortfall"). The Regents' obligation to make Debt Service Shortfall payments under the Debt Service Payment Agreement is an unconditional, absolute and continuing covenant of The Regents and not of the Borrower or of the Collaboratory Members. None of the Collaboratory Members, other than The Regents, has any obligation under the Debt Service Payment Agreement. The Regents has never had to make a Debt Service Shortfall payment under the Debt Service Agreement to make a payment of principal or interest on the 2010A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS – The Debt Service Payment Agreement."

## ESTIMATED SOURCES AND USES OF FUNDS

The schedule below contains the estimated sources and uses of funds that will be used to refinance the Refunded Bonds and pay costs of issuance related to the Series 2016A Bonds.

| | |
|---|---|
| SOURCES OF FUNDS: | |
| Par Amount of Series 2016A Bonds | $54,280,000.00 |
| Plus Original Issue Premium of the Series 2016A Bonds | 10,205,971.85 |
| Accrued Interest | 1,087,717.08 |
| TOTAL SOURCES OF FUNDS | $65,573,688.93 |
| USES OF FUNDS: | |
| Deposit to Escrow Fund | $64,962,505.24 |
| Costs of Issuance (1) | 611,183.69 |
| TOTAL USES OF FUNDS | $65,573,688.93 |

(1) Includes underwriters' discount, legal fees, printing costs, fees of the Infrastructure Bank, the Trustee, the rating agencies and other miscellaneous costs of issuance.

## PLAN OF REFUNDING

The refunding will be effected by depositing a portion of the proceeds of the Series 2016A Bonds into an Escrow Fund established pursuant to an Escrow Agreement dated as of October 1, 2016 (the "Escrow Agreement"), between the Borrower and The Bank of New York Mellon Trust Company, N.A., as escrow agent thereunder (in such capacity, the "Escrow Agent"). Amounts in the Escrow Fund will be available to pay the principal of and interest on the Refunded Bonds coming due through and including on May 15, 2020 (the "Redemption Date"), as well as the redemption price of 100% of the principal amount of those Refunded Bonds maturing on and after the Redemption Date, plus accrued interest thereon to the Redemption Date.

The accuracy of the mathematical computations of the adequacy of the amount in the Escrow Fund to provide for the payment of principal and interest on the Refunded Bonds when due, through and including the Redemption Date, as applicable, and the redemption price on the Redemption Date of the Refunded Bonds redeemed on the Redemption Date, will be verified at the time of delivery of the Series 2016A Bonds by Causey Demgen & Moore, P.C. (the "Verification Agent"). See "VERIFICATION OF MATHEMATICAL ACCURACY."

**Refunded Bonds**

| Maturity Amount | Maturity Date (May 15) | Interest Rate | CUSIP (13033W) |
|---|---|---|---|
| $1,290,000 | 2017 | 4.00% | 4T7 |
| 1,345,000 | 2018 | 4.00 | 4U4 |
| 1,400,000 | 2019 | 4.50 | 4V2 |
| 1,460,000 | 2020 | 5.00 | 4W0 |
| 1,535,000 | 2021 | 5.00 | 4X8 |
| 1,610,000 | 2022 | 5.00 | 4Y6 |
| 1,690,000 | 2023 | 5.00 | 4Z3 |
| 1,775,000 | 2024 | 5.00 | 5A7 |
| 1,865,000 | 2025 | 5.00 | 5B5 |
| 1,955,000 | 2026 | 5.00 | 5D1 |
| 2,055,000 | 2027 | 5.00 | 5E9 |
| 2,160,000 | 2028 | 5.00 | 5F6 |
| 11,000,000 | 2033 | 5.00 | 5G4 |
| 25,070,000 | 2040 | 5.00 | 5C3 |
| $56,210,000 | | | |

## THE SERIES 2016A BONDS

### General Description

The Series 2016A Bonds will be dated the Date of Delivery and will mature on the dates shown on the inside cover page of this Official Statement, subject to optional and mandatory redemption provisions. The Series 2016A Bonds will bear interest at the rates shown on the inside cover page of this Official Statement, payable semi-annually on each May 15 and November 15, commencing May 15, 2017 (each an "Interest Payment Date" and collectively, the "Interest Payment Dates") until paid, in an amount equal to the interest accrued from the Interest Payment Date to which interest has been paid (or duly provided for) next preceding the date of authentication of each Series 2016A Bond, unless (a) such date of authentication is prior to the first Interest Payment Date, in which case such Series 2016A Bond will bear interest from the Date of Delivery, or (b) such Series 2016A Bond is authenticated as of an Interest Payment Date, in which case such Series 2016A Bond will bear interest from said Interest Payment Date, provided that if, as shown by the records of the Trustee, interest on the Series 2016A Bonds is in default, such Series 2016A Bond will bear interest from the last date to which interest has been paid in full (or duly provided for) on such Series 2016A Bond, and provided further that if no interest has been paid on the Series 2016A Bonds, such Series 2016A Bond will bear interest from the Date of Delivery.

The Series 2016A Bonds will bear interest as described above from and including the Delivery Date to but excluding the date of payment in full of such Series 2016A Bonds. Interest on the Series 2016A Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series 2016A Bonds will be issued as fully registered bonds without coupons in denominations of $5,000 and any multiple thereof ("Authorized Denominations").

### Payment of the Series 2016A Bonds

While The Depository Trust Company ("DTC"), New York, New York, or its nominee is owner of the Series 2016A Bonds, all payments of principal of, premium, if any, and interest on the Series 2016A Bonds will be paid to DTC or its nominee by wire transfer. See "– Book-Entry Only System for the Series 2016A Bonds" below and APPENDIX E – "BOOK-ENTRY ONLY SYSTEM."

### Book-Entry Only System for the Series 2016A Bonds

DTC will act as securities depository for the Series 2016A Bonds. The ownership of one fully registered Series 2016A Bond for each maturity of each Series set forth on the cover page hereof, in the aggregate principal amount of the Series 2016A Bonds maturing on that date, will be registered in the name of Cede & Co., as nominee of DTC, or any successor nominee (the "Nominee"). See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM" for a description of DTC and the Book-Entry Only System.

**Redemption**

*Optional Redemption.* The Series 2016A Bonds maturing on or before May 15, 2026 are not subject to optional redemption. The Series 2016A Bonds maturing on or after May 15, 2027 are subject to optional redemption prior to their respective stated maturities, as a whole or in part on any date on or after May 15, 2026, as set forth in a Written Request of the Borrower, in the amount equal to the principal amount of the Series 2016A Bonds to be redeemed, plus unpaid accrued interest thereon, if any, to the date of redemption, without premium.

*Mandatory Redemption from Sinking Fund Installments.* The Series 2016A Bonds maturing on May 15, 2040, are subject to redemption, in part, by lot, from mandatory Sinking Fund Installments deposited in the Bond Fund on each May 15, from and after May 15, 2038, at a redemption price equal to the principal amount of the Series 2016A Bonds to be redeemed, without premium. Sinking Fund Installments for the Series 2016A Bonds maturing on May 15, 2040, will be due on the following dates and in the following amounts:

| Sinking Fund Installment Due Date May 15 | Sinking Fund Installment |
|---|---|
| 2038 | $3,365,000 |
| 2039 | 3,500,000 |
| 2040* | 3,645,000 |

* Final Maturity

In the event that Series 2016A Bonds maturing on May 15, 2040 have been optionally redeemed pursuant to the Indenture, the remaining Sinking Fund Installments will be reduced, in an aggregate amount equal to the principal amount of such Series 2016A Bonds so redeemed, as directed in writing by an Authorized Borrower Representative, which direction will include a revised sinking fund schedule, and in the absence of such direction, as proportionately as possible in integral multiples of the applicable Authorized Denominations.

*Special Redemption of Series 2016A Bonds.* The Series 2016A Bonds are subject to redemption prior to their respective stated maturities, in whole or in part (in such amounts and such maturities as may be directed in writing by an Authorized Borrower Representative or, in the absence of such direction, in inverse order of maturity, and by lot within a maturity) on any date, from casualty insurance or condemnation proceeds with respect to the Consortium Facility Project received from the Borrower pursuant to the Loan Agreement, at a redemption price equal to 100% of the principal amount of the Series 2016A Bonds to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

*Partial Redemption of the Series 2016A Bonds.* The Series 2016A Bonds will be redeemed only in Authorized Denominations. Upon surrender of any Series 2016A Bond redeemed in part only, the Infrastructure Bank will issue and the Trustee will authenticate, register and deliver to the Owner thereof a new Series 2016A Bond of like tenor and in an Authorized Denomination without charge to the Owner in the aggregate principal amount of the unredeemed portion of the Series 2016A Bond surrendered. In the event of any partial redemption of a Series 2016A Bond which is registered in the name of the Nominee, DTC may elect to make a notation on the Series 2016A Bond certificate which reflects the date and amount of the reduction in principal amount of said Series 2016A Bond in lieu of surrendering the Series 2016A Bond certificate to the Trustee for exchange. See "Book-Entry Only System for the Series 2016A Bonds" above. The Infrastructure Bank, the Borrower and the Trustee will be fully released and discharged from all liability upon, and to the extent of, payment of the redemption price for any partial redemption and upon the taking of all other actions required under the Indenture in connection with such redemption.

*Notice of Redemption; Cessation of Interest.* In the event any of the Series 2016A Bonds are called for redemption, notice thereof identifying the Series 2016A Bonds or portions thereof to be redeemed will be given by the Trustee by mailing a copy of the redemption notice by first class mail (postage prepaid) not less than 30 days nor more than 60 days prior to the date fixed for redemption to (i) the Owner of such Series 2016A Bond at the address shown on the Bond Register on the date such notice is mailed, (ii) the Infrastructure Bank, (iii) as long as the Debt Service Payment Agreement is in effect and The Regents is not in default thereunder, The Regents, and (iv) as may be further required by the Continuing Disclosure Agreement; provided, however, that failure to give such notice by mailing to any owner of Series 2016A Bonds designated for redemption or any defect therein will not affect the validity of any proceedings for the redemption of any other Series 2016A Bonds for which notice will have been properly given. Each notice of redemption will state the date of such notice and date of issue of the Series 2016A Bonds to be redeemed, the redemption date, the redemption price, the place of redemption (including the name and appropriate address of the Trustee), the principal amount, the CUSIP numbers (if any) of the Series 2016A Bonds to be redeemed and, if less than all, the distinctive certificate numbers of the Series 2016A Bonds to be redeemed and, in the case of Series 2016A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice will further state that the interest on the Series 2016A Bonds designated for redemption will cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Series 2016A Bonds the principal amount thereof to be redeemed and any unpaid interest accrued thereon to the redemption date and will require that such Series 2016A Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

With respect to any notice of optional redemption of Series 2016A Bonds pursuant to the Indenture, unless upon the giving of such notice such Series 2016A Bonds will be deemed to have been paid within the meaning of the Indenture, such notice will state that such redemption will be conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the redemption price of the Series 2016A Bonds to be redeemed, and that if such amounts have not been so received said notice will be of no force and effect and the Infrastructure Bank will not be required to redeem such Series 2016A Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption will not be made and the Trustee will, within a reasonable time thereafter, give notice to the persons and in the manner in which the notice of redemption was given, that such amounts were not so received and that there will be no redemption of Series 2016A Bonds pursuant to the notice of redemption.

If upon the expiration of 60 days succeeding any redemption date, any Series 2016A Bonds called for redemption have not been presented to the Trustee for payment, the Trustee will, no later than 90 days following such redemption date, send Notice by Mail to the Owner of each Series 2016A Bond not presented. Failure to mail the notices required by this paragraph to any Owner, or any defect in any notice so mailed, will not affect the validity of the proceedings for redemption of any Series 2016A Bonds nor impose any liability on the Trustee.

*Effect of Redemption.* Pursuant to the Indenture, if notice of redemption is duly given and moneys for payment of the redemption price of the Series 2016A Bonds (or portions thereof) called for redemption are being held by the Trustee, then on the redemption date designated in such notice, the Series 2016A Bonds (or portions thereof) so called for redemption will become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date will cease to accrue, such Series 2016A Bonds (or portions thereof) will cease to be entitled to any lien, benefit or security under the Indenture, and the Owners of such Series 2016A Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof (including interest, if any, accrued to the redemption date), without interest accrued on any funds held after the redemption date to pay such redemption price.

## SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS

### Limited Obligations of the Infrastructure Bank

**THE SERIES 2016A BONDS ARE LIMITED OBLIGATIONS OF THE INFRASTRUCTURE BANK AND ARE NOT A LIEN OR CHARGE UPON THE FUNDS OR PROPERTY OF THE INFRASTRUCTURE BANK, EXCEPT TO THE EXTENT OF THE PLEDGE AND THE ASSIGNMENT PROVIDED FOR IN THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR THE INFRASTRUCTURE BANK SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF**

**ANY, OR THE INTEREST ON THE SERIES 2016A BONDS, EXCEPT FROM REVENUES RECEIVED BY THE INFRASTRUCTURE BANK AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2016A BONDS. THE SERIES 2016A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK, PAYABLE SOLELY FROM REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWERS.**

**Pledge of Gross Revenues By Borrower**

The Borrower will agree that, as long as any of the Loan Payments and Additional Payments remain unpaid, all of the Gross Revenues, as defined above, shall be deposited as soon as practicable upon receipt in either (i) one or more funds designated as the "Gross Revenue Funds" which the Borrower will establish and maintain as a deposit account at such banking institution or institutions as the Borrower will from time to time designate or (ii) in the University of California's Short-Term Investment Pool and/or similar fund, account or investment program of the University of California dedicated solely to the Borrower (the "Borrower UC Accounts" and, together with the Gross Revenue Funds, the "Investment Funds"). As security for the payment of the Loan Payments and Additional Payments and the performance by the Borrower of its other obligations under the Loan Agreement, the Borrower will pledge and assign to the Trustee and will grant to the Trustee a security interest (to the extent permitted by law) in all its right, title and interest, whether now owned or hereafter acquired, in and to the Gross Revenues and each Investment Fund and the proceeds thereof.

Except as noted below with respect to the Gross Revenue Fund, Gross Revenues in the Investment Funds may be used by the Borrower for any lawful purpose. Upon a payment event of default under the Loan Agreement, the Trustee shall be granted exclusive control over the Gross Revenue Fund, which shall then be applied solely in accordance with the terms of the Loan Agreement and the Deposit Account Control Agreement. See "APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS – THE LOAN AGREEMENT."

As discussed under "THE BORROWER" herein, pursuant to the Collaboratory Agreement, the Collaboratory Members pay a license fee monthly in an amount equal to their share of the Borrower's debt service and operating expenses allocable to the portion of the Consortium Facility Project occupied for stem cell research, plus any amount payable by the Borrower to The Regents under the Ground Lease. In addition, pursuant to the Space Lease, The Regents pays rent monthly in an amount equal to the share of the Borrower's debt service and operating expenses allocable to the Excess Space, plus any amount payable by the Borrower to The Regents under the Ground Lease.

Loan Payments under the Loan Agreement will be paid from the Borrower's Gross Revenues. See "THE BORROWER" herein for a description of the sources of Gross Revenues available to the Borrower to make payments under the Loan Agreement and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A – Monthly License Fees," "– Monthly Base Rent" and "THE COLLABORATORY AGREEMENT AND THE SPACE LEASE" below for a more detailed discussion of various sources of Borrower Gross Revenues.

**Monthly License Fees**

Each Collaboratory Member (other than Scripps, which under the Collaboratory Agreement has an allocable share of 0% of the licensed space in the Consortium Facility Project) is obligated, pursuant to the Collaboratory Agreement, to pay monthly license fees, which moneys will be used by the Borrower for the payment of principal of, premium, if any, and interest on the Series 2016A Bonds in accordance with the Indenture and the Loan Agreement. Among other amounts, the monthly license fee of each Collaboratory Member consists of, pursuant to calculations provided for under the Collaboratory Agreement, a payment equal to the sum of (i) such Collaboratory Member's share (allocated based on the percentage space licensed by such Collaboratory Member in the Consortium Facility Project) of the Borrower's debt service obligations in accordance with the Indenture and the

Loan Agreement, and (ii) such Collaboratory Member's share (allocated based on the percentage space licensed by such Collaboratory Member in the Consortium Facility Project) of the Borrower's lease payment obligation under the Ground Lease. No Collaboratory Member has any obligation under the Loan Agreement, the Indenture or the Series 2016A Bonds. The Regents' obligations are set forth in the Debt Service Payment Agreement. The Borrower's obligations are set forth in the Loan Agreement.

**Monthly Base Rent**

The Regents is obligated, pursuant to the Space Lease, to make Monthly Base Rent payments, which moneys will be used by the Borrower, along with monthly license fees discussed above and other Borrower Gross Revenues, if needed, for the payment of principal of, premium, if any, and interest on the Series 2016A Bonds. The Series 2016A Bonds are being offered on the basis of the financial strength of the University, including its obligation to make payments of Monthly Base Rent under the Space Lease, payments under the Collaboratory Agreement and to make payments of Debt Service Shortfall as provided in the Debt Service Payment Agreement, rather than on the financial strength of the Borrower.

**Pledge of Revenues by Infrastructure Bank**

As security for its obligations under the Series 2016A Bonds, the Infrastructure Bank will enter into the Indenture, pursuant to which it will transfer in trust, grant a security interest in, assign and set over to the Trustee, for the benefit of the Owners of the Series 2016A Bonds, to the extent of its interest therein, all of the Revenues and all amounts, including the proceeds of the sale of the Series 2016A Bonds (but excluding any Additional Payments paid to the Infrastructure Bank by the Borrower pursuant to the Loan Agreement), and any and all rights and privileges, other than the Reserved Rights, it has under the Loan Agreement, including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest. Any Revenues collected or received by the Infrastructure Bank will be deemed to be held and to have been collected or received by the Infrastructure Bank for the benefit of the Owners of the Series 2016A Bonds, and will be paid by the Infrastructure Bank to the Trustee. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS – THE INDENTURE." Revenues are defined in the Indenture as all receipts, installment payments and other income received by the Infrastructure Bank or the Trustee from the Borrower under the Loan Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund and any account therein), including all Loan Payments, and any other payments made by the Borrower (excluding Additional Payments) as contemplated by the Loan Agreement.

**The Debt Service Payment Agreement**

Pursuant to the Debt Service Payment Agreement, The Regents is obligated to pay in full the debt service on the Series 2016A Bonds, as the same becomes due and payable in accordance with the Indenture, to the extent the funds then available to the Trustee under the Indenture are not fully sufficient to pay such debt service (the "Debt Service Shortfall"). Upon receipt of a written notice from the Trustee notifying The Regents of the Debt Service Shortfall not less than five (5) Business Days prior to Debt Service Payment Date, The Regents will pay to the Trustee by wire transfer an amount equal to the Debt Service Shortfall not later than the Business Day prior to the Debt Service Payment Date.

The Regents' obligation to make Debt Service Shortfall payments under the Debt Service Payment Agreement is, so long as any of the Series 2016A Bonds remain outstanding, (i) an unconditional, absolute, irrevocable and continuing covenant of The Regents and not of the Borrower or of the other Collaboratory Members, (ii) not contingent upon the occupancy of the Consortium Facility Project and (iii) not subject to abatement in the event of damage or destruction of the Consortium Facility Project. The Regents is not required to pay and is not liable under any circumstances for any consequential, indirect or punitive damages, opportunity costs or lost profits relating to the Series 2016A Bonds or otherwise. In addition, The Regents is not required to make any payment from any of its funds that are not lawfully available to make such payment, including without limitation (a) any moneys which are restricted as to expenditure by a granting agency or donor or (b) educational appropriations made by the State.

The Regents may not revoke the Debt Service Payment Agreement. The Debt Service Payment Agreement will continue to be effective or will be reinstated if any payment to the Trustee by the Borrower on account of any Series 2016A Bonds is returned to the Borrower or is rescinded upon the insolvency, bankruptcy or reorganization of the Borrower. Such unconditional obligation of The Regents under the Debt Service Payment Agreement provides additional security for the Series 2016A Bonds.

**Nature of The Regents' Obligations**

The Regents' obligations to make Monthly Base Rent payments under the Space Lease and to make Debt Service Shortfall payments under the Debt Service Payment Agreement are unsecured, general obligations of The Regents. The Series 2016A Bonds are not direct obligations of The Regents and none of the property, assets or revenues of The Regents will be pledged as security for the payment of the Series 2016A Bonds. In addition, neither the Space Lease nor the Debt Service Payment Agreement contains any financial covenants limiting the ability of The Regents to incur indebtedness (secured or unsecured) or encumber or dispose of its property or any covenants requiring The Regents to produce revenues at any specified level or to obtain any insurance with respect to its property or operations. For information regarding the University, see "THE UNIVERSITY AND THE REGENTS," APPENDIX A – "THE UNIVERSITY OF CALIFORNIA" AND APPENDIX B – "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015."

**No Debt Service Reserve**

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

**Insurance or Condemnation Proceeds Pledged to Bondholders**

Pursuant to the Loan Agreement, the Borrower will be required to maintain or cause to be maintained with respect to the Consortium Facility Project, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by scientific research facilities located in the State of a nature similar to the Consortium Facility Project, which insurance must include property damage, fire and extended coverage and public liability insurance. Certain insurance requirements of the Borrower also appear in the Ground Lease and the Space Lease. In the event a portion of the Consortium Facility Project is taken from the Borrower by eminent domain or damaged or destroyed, the insurance and condemnation proceeds (less any costs reasonably expended by the Borrower to receive such proceeds), will be applied to the prepayment of Loan Payments and to the redemption of the Series 2016A Bonds; provided, however, that such proceeds will not be so applied if the Borrower satisfies the conditions under the Loan Agreement regarding the use of such proceeds to repair or replace the Consortium Facility Project and uses such proceeds to proceed with such repair or replacement.

## THE UNIVERSITY AND THE REGENTS

The University of California (the "University") is the public institution of higher education designated by the State of California in its Master Plan for Higher Education for the training of individuals for the professions, for the awarding of doctoral degrees in all fields of human knowledge, and for the conduct of research. Information on the University and The Regents is included in APPENDIX A – "THE UNIVERSITY OF CALIFORNIA" attached hereto.

The financial statements of the University for the fiscal year ended June 30, 2015, appended hereto as Appendix B, have been audited by KPMG LLP ("KPMG"), independent certified public accountants. The related report of KPMG dated October 9, 2015, is also appended hereto. These financial statements should be read in their entirety. See APPENDIX B – "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015."

**The information contained in Appendices A and B describes, among other things, funds and assets of the University. None of the funds and assets of the University are pledged as security for the Series 2016A Bonds.**

**Pursuant to the Space Lease, The Regents is obligated to make Monthly Base Rent payments, which will be used by the Borrower for the payment of principal of, premium, if any, and interest on the Series 2016A Bonds. See "THE COLLABORATORY AGREEMENT AND THE SPACE LEASE – The Space Lease" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS – Monthly Base Rent" herein.**

**The Regents will enter into the Debt Service Payment Agreement pursuant to which it will unconditionally, absolutely and irrevocably covenant to pay to the Trustee an amount equal to the Debt Service Shortfall. Such unconditional obligation of The Regents under the Debt Service Payment Agreement provides additional security for the Series 2016A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS – The Debt Service Payment Agreement."**

## THE UNIVERSITY OF CALIFORNIA, SAN DIEGO

UCSD is a campus of the University, located in San Diego, California. UCSD's origins date to 1912 when the Scripps Institution of Oceanography became part of the University. Established as a comprehensive General Campus in 1960, UCSD has evolved into an internationally distinguished research university. A unique academic feature is found in its six semi-autonomous undergraduate colleges; each has a distinctive educational philosophy that provides academic and extramural opportunities typically found only in small liberal arts colleges and each possesses its own residential and academic facilities. Professional and advanced degrees and research opportunities are provided by the General Campus' divisions and graduate programs, the Graduate School of International Relations and Pacific Studies, the Rady School of Management, the Scripps Institution of Oceanography, the School of Medicine, the Skaggs School of Pharmacy and Pharmaceutical Sciences, and the UCSD Medical Center.

## THE GROUND LEASE

The Regents and the Borrower have entered into a Ground Lease, dated as of October 28, 2009 (the "Ground Lease"), pursuant to which the Borrower, as tenant, has leased from The Regents, as landlord, the property on which the Consortium Facility Project has been constructed. The term of the Ground Lease commenced on November 20, 2009 (the "Effective Date") and expires on the 52nd anniversary of the Effective Date. The Borrower's obligation to pay rent shall be calculated as set forth in the Ground Lease. The Borrower's use of the leased property is limited to the construction, maintenance, use and operation of the improvements composing the Consortium Facility Project, all as further described in the Ground Lease.

Events of default under the Ground Lease include (a) the Borrower's abandonment of the land or the improvements thereon, (b) the Borrower's failure to pay any amount due and payable under the Ground Lease to The Regents within ten business days after the original due date, (c) the Borrower's or The Regents' failure to perform its obligations under the Ground Lease, (d) certain bankruptcy actions being taken by or against the Borrower and (e) the attachment, execution or other judicial seizure of substantially all of the Borrower's assets located on the land or of the Borrower's interest in the Ground Lease. If a Borrower event of default occurs, The Regents may (i) elect to terminate the Ground Lease, (ii) re-enter the land and, without terminating the Ground Lease, relet the land and the improvements thereon, (iii) seek judgment against the Borrower for damages or (iv) require strict performance by the Borrower of all covenants and obligations, including the right to recover rent and charges equivalent to rent without terminating the Ground Lease.

## THE COLLABORATORY AGREEMENT AND THE SPACE LEASE

### The Collaboratory Agreement

The Borrower and the Collaboratory Members have entered into a Collaboratory Agreement, dated as of October 28, 2009 (as amended, the "Collaboratory Agreement"), pursuant to which the Collaboratory Members have agreed to pay monthly license fees for the use of licensed space within the Consortium Facility Project. The Regents, in its capacity as a Collaboratory Member, occupies and licenses 17 of the 24 total modules licensed under the Collaboratory Agreement. The other Collaboratory Members (other than Scripps, which under the Collaboratory Agreement has an allocable share of 0% of the licensed spaced in the Consortium Facility Project), will occupy and license the remaining space in the Consortium Facility Project. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A Bonds – Monthly License Fees” for a description of the monthly license fees under the Collaboratory Agreement. Each Collaboratory Member will use and cause its respective scientists and employees to use the licensed space within the Consortium Facility Project for the purposes of stem-cell-related scientific research, as further described in the Collaboratory Agreement.

Each Collaboratory Member’s obligation to pay monthly license fees to the Borrower under the Collaboratory Agreement shall, unless sooner terminated or renewed in accordance with the terms of the Collaboratory Agreement, continue until the day preceding the 10th anniversary of January 1, 2012 (the “Commencement Date”). The Collaboratory Agreement shall automatically terminate upon expiration (but not the earlier termination) of the Ground Lease.

Events of default under the Collaboratory Agreement include the Collaboratory Members’ failure to pay their monthly license fees and other fees under the Collaboratory Agreement and any breach by a Collaboratory Member of any representation or warranty or default under any covenant, provision, agreement or condition of the Collaboratory Agreement. If an event of default occurs, the Borrower may, but is not obligated to, (i) perform the defaulting Collaboratory Member’s obligations under the Collaboratory Agreement, (ii) declare the full amount of the License fees and other fees estimated to be payable by the defaulting Collaboratory Member to be immediately due and payable by such defaulting Collaboratory Member, (iii) terminate the Collaboratory Agreement with respect to the defaulting Collaboratory Member upon ten days written notice or (iv) exercise any and all rights, powers and remedies available to the Borrower at law, in equity or otherwise, all of which rights, powers and remedies are cumulative and not exclusive.

Except as provided in the Collaboratory Agreement, in the event a Debt Service Shortfall occurs as a result of a delinquency in payment of any monthly license fee by a Collaboratory Member, the Borrower agrees to notify such Collaboratory Member of such delinquent payment not later than the fifteenth (15th) day of such month. The Borrower will pursue any and all available remedies under the Collaboratory Agreement, including but not limited to eviction of the delinquent Collaboratory Member. Immediately upon the eviction of such Collaboratory Member, the Borrower will tender the space to The Regents and if The Regents elect to occupy such space, the Borrower will provide to the Collaboratory Members a revised schedule reflecting each Collaboratory Member’s allocable share of the licensed space in the Consortium Facility Project.

**The Space Lease**

The Borrower and The Regents have entered into a Space Lease, dated as of October 28, 2009 (the “Space Lease”) pursuant to which The Regents, as tenant, has leased a portion of the Consortium Facility Project from the Borrower, as landlord, for an initial term of 120 months following the Commencement Date, as such term may be terminated or extended pursuant to the terms of the Space Lease. Under the Space Lease, The Regents is required to make Monthly Base Rent payments, as calculated pursuant to the Space Lease, which moneys will be used by the Borrower, along with amounts received under the Collaboratory Agreement and the Borrower’s other Gross Revenues, if required, to pay debt service on the Series 2016A Bonds and any payment due from the Borrower under the Ground Lease. See “SECURITY AND SOURCES OF PAYMENT FOR THE series 2016A BONDS – Monthly Base Rent.” Amounts received by the Borrower pursuant to the Space Lease and the Collaboratory Agreement have been sufficient to cover the entirety of the principal of and interest on the 2010A Bonds. The Regents has never had to make a Debt Service Shortfall payment under the Debt Service Agreement to make a payment of principal or interest on the 2010A Bonds. The Regents will use the leased space within the Consortium Facility Project for the purposes of conducting scientific research, as further described in the Space Lease.

Events of default under the Space Lease include (i) The Regents’ default in the payment of rent when such default continues for a period of 30 days after written notice, (ii) The Regents’ failure to perform and observe any other covenant or undertaking under the Space Lease, (iii) The Regents’ bankruptcy, (iv) the sale of The Regents’ interest under execution of judgment, and (v) the Borrower’s failure to perform its obligations under the Space Lease within a reasonable period of time. If an event of default occurs, the non-defaulting party has the option to cure the default and may recover from the defaulting party all costs associated with such cure, or to terminate the Space Lease, in addition to other remedies at law.

## INVESTMENT CONSIDERATIONS

In making investment decisions, investors must rely on their own investigations and evaluation of the merits of a particular investment; however, each investment has particular factors an investor should review and evaluate. The following is a summary, which does not purport to be comprehensive or definitive, of some of the factors an investor may want to consider before purchasing the Series 2016A Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should become thoroughly familiar with this entire Official Statement, including APPENDIX B – "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015" and APPENDIX G – "AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR FISCAL YEARS ENDED DECEMBER 31, 2015 AND 2014." Investors should read APPENDIX B and APPENDIX G in their entirety. Inclusion of risk factors below is not intended to signify that there are no other investment considerations or risks attendant to the Series 2016A Bonds that are as material to an investment decision with respect to the Series 2016A Bonds that are otherwise described or referred to elsewhere herein.

### Limited Security

**THE SERIES 2016A BONDS ARE LIMITED OBLIGATIONS OF THE INFRASTRUCTURE BANK AND ARE NOT A LIEN OR CHARGE UPON THE FUNDS OR PROPERTY OF THE INFRASTRUCTURE BANK, EXCEPT TO THE EXTENT OF THE PLEDGE AND THE ASSIGNMENT PROVIDED FOR IN THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR THE INFRASTRUCTURE BANK SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR THE INTEREST ON THE SERIES 2016A BONDS, EXCEPT FROM REVENUES RECEIVED BY THE INFRASTRUCTURE BANK AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2016A BONDS. THE SERIES 2016A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK, PAYABLE SOLELY FROM REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWERS.**

### Risks with Respect to the Borrower

The Series 2016A Bonds are payable from payments to be made by the Borrower under the Loan Agreement and from such other funds as may be available under the Indenture. The Borrower relies on payments under the Collaboratory Agreement and the Space Lease, grants, gifts, and investment earnings from its investment portfolio for its operating expenses and to pay principal of and interest on the Series 2016A Bonds. No representation or assurance can be made or given that sufficient revenues will be generated in the future by the Borrower to make the Loan Payments necessary for payment in full of the principal of and premium, if any, and interest on the Series 2016A Bonds when due. The payment of Loan Payments are obligations of the Borrower, secured only by the Gross Revenue pledged under the Loan Agreement.

Future revenues and expenses of the Borrower will be affected by events and conditions relating generally to, among other things, the Collaboratory Members' ability to maintain research grants and corporate sponsored research agreements. Statutes and regulations governing the funding of research may change, and unanticipated events and circumstances may occur, any of which could cause material variations in future revenues of the Collaboratory Members. This, among others, may affect the Collaboratory Member's ability to continue research at the Consortium Facility Project and their ability to make payments under the Collaboratory Agreement and/or Space Lease to the Borrower which may in turn materially adversely affect the revenues and financial condition of the Borrower and could result in risks for Bondholders.

The future funding of the Collaboratory Member's research programs is dependent on the continued availability of funds from the public, private and commercial sources and the ability of the Collaboratory Members to compete successfully for those funds. This funding is subject to federal and other governmental budget priorities and Congress' and state government annual appropriation processes. Federal or state deficit reduction requirements or other budgetary considerations may cause governmental reductions in funding of stem cell research. There can be no assurance as to the adequacy of future funding for research programs, nor can there be any assurance that the Collaboratory Members will be able to maintain current level of funding agreements. A significant reduction in research funding may affect the Collaboratory Members' ability to continue research at the Consortium Facility Project and their ability to make payments under the Collaboratory Agreement and/or Space Lease to the Borrower which may in turn materially adversely affect the revenues and financial condition of the Borrower and could result in risks for the Bondholders.

**Change in Payment and Recapture Methodology**

Certain costs of the Collaboratory Members relating to their research programs are generally eligible for recovery through direct and indirect rates charged to all federal and state government grants and contracts. Direct costs are specifically related to a research project and include wages of scientists and technicians, supplies and grant-specific equipment. Indirect costs also are incurred in the accomplishment of research programs, but such costs have been incurred for purposes common to some or all of the research programs. The cost principles applied to indirect costs are intended to provide for a sharing and allocation of indirect costs between the government and the research facility. Examples of indirect costs include utilities, interest on debt incurred to finance facilities and equipment, depreciation on facilities and equipment and other occupancy and facility costs, and general management and administrative services such as accounting, purchasing, and human resources.

Reimbursement rates and recapture methodology for recovery of direct and indirect costs are determined in accordance with government regulations and/or negotiated contract provisions. There can be no assurance that future changes to reimbursement rates, recapture methodology or the types of costs that can be recovered will not adversely impact the Collaboratory Members and therefore their ability to make required payments under the Collaboratory Agreement and/or the Space Lease.

**Environmental Laws and Regulations**

Research laboratories are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, provider operations or facilities and properties owned or operated by providers. Among the types of regulatory requirements faced by research facilities are: air and water quality control requirements; waste management requirements; aboveground and underground storage tank requirements; fire and life safety requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials and wastes; and other requirements. In its role as an owner and/or operator of properties or facilities, the Borrower and/or the Collaboratory Members may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off the property. Typical laboratory operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, corrosive, reactive, and flammable materials, wastes, waste generated in research pertaining to the production or testing of microbiologicals; waste generated in research using human or animal pathogens; sharps and laboratory waste that poses a potential risk of infection to humans generated in the inoculation of animals, pollutants or contaminants. As such, laboratory facilities are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Borrower and/or the Collaboratory Members will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Borrower and/or the Collaboratory Members.

**Risks with Respect to The Regents**

Payments of the Debt Service Shortfall under the Debt Service Payment Agreement will constitute the security for the payment of the principal of, premium, if any, and interest on the Series 2016A Bonds, to the extent the funds then available to the Trustee under the Indenture are not fully sufficient. Payment of such amounts will be dependent upon the financial condition of the University. The Regents is not required to make any payment from any of its funds that are not lawfully available to make such payment, including without limitation (a) any moneys which are restricted as to expenditure by a granting agency or donor or (b) educational appropriations made by the State. For information related to the University, see "THE UNIVERSITY AND THE REGENTS," APPENDIX A – "THE UNIVERSITY OF CALIFORNIA" and APPENDIX B – "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015." The University's financial information should be reviewed and carefully considered by prospective purchasers of the Series 2016A Bonds.

If The Regents fails to make required payments required under the Debt Service Payment Agreement, such failure will have a material adverse affect on payment of principal and interest on the Series 2016A Bonds.

**Enforceability of Remedies; Effect of Bankruptcy**

The remedies available to the Trustee, the Infrastructure Bank and the Owners upon an Event of Default under the Indenture, the Loan Agreement or the Debt Service Payment Agreement are dependent upon judicial actions which are, in turn, often subject to discretion and delay. Under existing constitutional and statutory laws and judicial decisions, including specifically, Title 11 of the United States Code, the Federal Bankruptcy Code, a particular remedy specified by the Bond Documents may not be enforceable or available, or its enforceability or availability may be limited or subject to substantial delay. The various legal opinions to be delivered concurrently with the issuance and delivery of the Series 2016A Bonds will be qualified as to the enforceability of the Indenture, the Loan Agreement and the Debt Service Payment Agreement and the various other legal instruments and the rights and remedies thereunder by limitations imposed by the valid exercise of constitutional powers of the State and the United States of America and other governmental authorities, including police powers exercised for the benefit of the public health and welfare, and by principles of equity and by bankruptcy, reorganization, insolvency, moratorium and similar laws affecting the rights of creditors generally.

**Tax-Exempt Status of the Series 2016A Bonds**

THE SERIES 2016A BONDS ARE NOT SUBJECT TO MANDATORY REDEMPTION AND THE RESPECTIVE RATES OF INTEREST ON THE SERIES 2016A BONDS ARE NOT SUBJECT TO ADJUSTMENT, IF THE INTEREST ON THE SERIES 2016A BONDS, OR ANY PORTION THEREOF, IS DETERMINED TO BE INCLUDED IN GROSS INCOME FOR THE PURPOSES OF FEDERAL INCOME TAXATION. See "TAX MATTERS" herein and APPENDIX D – "PROPOSED FORM OF BOND COUNSEL OPINION."

**Other Factors**

Additional factors that may affect the market value of the Bonds or the future operations and, therefore, revenues of the Borrower and/or Collaboratory Members include the following, among others:

(i) The occurrence of natural disasters and global warming, including floods, rising sea levels, tsunamis, landslides, hurricanes and earthquakes, which could cause uninsured damage to the Consortium Facility Project or otherwise impair the operations of the Collaboratory Members and the payment of amounts due to the Borrower under the Collaboratory Agreement and/or Space Lease.

(ii) Imposition of any regulations that would limit or prevent the use of animals for scientific research.

(iii) Breakthroughs or other scientific advances, which could reduce the need for research of the kind carried out by the Collaboratory Members.

(iv) Increased competition from other research facilities, including, but not limited to, competition for limited funds for sponsored research of the kind carried out by the Collaboratory Members and for researchers likely to be awarded grants of such funds.

## NO LITIGATION

### The Infrastructure Bank

To the current actual knowledge of the Infrastructure Bank, without independent investigation, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body known to the Infrastructure Bank to be pending or threatened against the Infrastructure Bank wherein an unfavorable decision, ruling or finding would adversely affect (i) the existence or organization of the Infrastructure Bank or the title to office of any member or officer of the Infrastructure Bank or any power of the Infrastructure Bank material to the issuance, sale and delivery of the Series 2016A Bonds, or (ii) the validity of the proceedings taken by the Infrastructure Bank for the adoption, authorization, execution, delivery and performance by the Infrastructure Bank of, or the validity or enforceability of, the Bond Purchase Agreement relating to the Series 2016A Bonds, the Indenture or the Loan Agreement.

### The Borrower

There is no litigation now pending or threatened against the Borrower, of which the Borrower has knowledge, that in any manner questions the Borrower's right to enter into or perform its obligations under the Loan Agreement, the Bond Purchase Agreement, or the Ground Lease or to perform its obligations under the Indenture that individually or in the aggregate would adversely affect the operations of the Borrower, financial or otherwise.

### The Regents

There is no litigation of any nature pending against The Regents to restrain or enjoin issuance, sale, execution or delivery of the Series 2016A Bonds or in any way contesting or affecting the validity of the Series 2016A Bonds or the security thereof, or to restrain or enjoin or in any way contesting the right or authority of The Regents to enter into the Debt Service Payment Agreement.

At all times, including the date of this Official Statement, there are other claims and disputes, including those currently in litigation, that arise in the normal course of the University's activities. Such matters could, if determined adversely to The Regents, affect expenditures of The Regents. However, University management and the Office of General Counsel are of the opinion that no pending actions are likely to have a material adverse effect on The Regents' ability to pay any amounts due under the Collaboratory Agreement, the Space Lease or The Regents' ability to pay any amounts due under the Debt Service Payment Agreement.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Infrastructure Bank ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of representations and compliance with covenants, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2016A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D hereto.

To the extent the issue price of any maturity of the Series 2016A Bonds is less than the amount to be paid at maturity of such Series 2016A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2016A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the Series 2016A Bonds which is excluded from gross income for federal income tax purposes and State personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2016A Bonds is the first price at which a substantial amount of such maturity of the Series 2016A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2016A Bonds accrues daily over the term to maturity of such Series 2016A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2016A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2016A Bonds. Owners of the Series 2016A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2016A Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series 2016A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2016A Bonds is sold to the public.

Series 2016A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Owner. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Series 2016A Bonds. The Infrastructure Bank and the Borrower have made representations and have covenanted to comply with restrictions, conditions and requirements designed to ensure that interest on the Series 2016A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2016A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2016A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2016A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2016A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Rodriguez, Horii, Choi & Cafferata LLP, Counsel to the Borrower, regarding the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Borrower concerning the Borrower's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Counsel to the Borrower has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Counsel to the Borrower can give or has given any opinion or assurance about the future activities of the Borrower, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service (the "IRS"). Failure of the Borrower to be organized and operated in accordance with the IRS' requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities finance by the Series 2016A Bonds in a manner that is substantially related to the Borrower's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Series 2016A Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2016A Bonds.

Although Bond Counsel is of the opinion that interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes and is exempt from State personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2016A Bonds may otherwise affect an Owner's federal, state or local tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Owner or the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2016A Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Series 2016A Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2016A Bonds. Prospective purchasers of the Series 2016A Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2016A Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Infrastructure Bank and the Borrower, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Infrastructure Bank and the Borrower have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2016A Bonds ends with the issuance of the Series 2016A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Infrastructure Bank, the Borrower or the Owners regarding the tax-exempt status of the Series 2016A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Infrastructure Bank and the Borrower and their respective appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Infrastructure Bank or the Borrower legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2016A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2016A Bonds, and may cause the Infrastructure Bank, the Borrower or the Owners to incur significant expense.

## UNDERWRITING

The Infrastructure Bank is offering the Series 2016A Bonds through Barclays Capital Inc. and Raymond James & Associates, Inc. (together, the "Underwriters"), pursuant to a bond purchase agreement (the "Bond Purchase Agreement") among the State Treasurer, the Infrastructure Bank, The Regents and Barclays Capital Inc., acting on behalf of itself and as representative of Raymond James & Associates Inc., relating to the Series 2016A Bonds. The Underwriters have agreed to purchase the Series 2016A Bonds at a purchase price of $64,325,062.75 (representing the aggregate principal amount of the Series 2016A Bonds, plus an original issue premium of $10,205,971.85 less an underwriters' discount of $160,909.10). The Underwriters are purchasing the Series 2016A Bonds and intend to offer the Series 2016A Bonds to the original purchasers thereof at the offering prices set forth on the inside cover page of this Official Statement, which offering price may subsequently be changed without any requirement of prior notice. The Underwriters may offer and sell the Series 2016A Bonds to dealers and others at a price lower than the initial offering price. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2016A Bonds if any are purchased and that the obligation to make such purchase is subject to the terms and conditions set forth therein.

## FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "intend," "projection" or other similar words.

THE ACHIEVEMENT OF RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS

DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NONE OF THE INFRASTRUCTURE BANK, THE BORROWER, NOR THE REGENTS PLAN TO ISSUE ANY UPDATES OR REVISIONS TO SUCH FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH FORWARD-LOOKING STATEMENTS ARE BASED OCCUR.

## RATINGS

Moody's Investors Service ("Moody's") and S&P Global Ratings ("S&P") have assigned their municipal bond ratings of "Aa2" and "AA," respectively, to the Series 2016A Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of each such rating may be obtained from Moody's or S&P, respectively. The Borrower has furnished to Moody's and S&P information, including information not included in this Official Statement, about the Borrower, the University, UCSD, The Regents, the Consortium Facility Project and the Series 2016A Bonds. An explanation of the significance of such rating may be obtained as follows: Moody's Investors Service, 7 World Trade Center, New York, New York 10007, and S&P 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Such ratings could at any time be revised downward or withdrawn entirely by such organizations, if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings could have an adverse effect on the market price or marketability of the Series 2016A Bonds.

## LEGAL MATTERS

The validity of the Series 2016A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Infrastructure Bank. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D attached hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. The legal fees to be paid Bond Counsel at the time the Series 2016A Bonds are delivered, for services rendered in connection with the issuance of the Series 2016A Bonds, are contingent upon the sale and delivery of the Series 2016A Bonds.

Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel; the University by its Office of General Counsel; the Borrower by its counsel Latham & Watkins LLP and Rodriguez, Horii, Choi & Cafferata LLP; and the Underwriters by their counsel Nixon Peabody LLP.

## MUNICIPAL ADVISOR

Swap Financial Group, LLC "SFG" is serving as municipal advisor to the University with respect to the pricing and sale of the Series 2016A Bonds. In its role as municipal advisor, SFG has not undertaken either to make an independent verification of or to assume responsibility for the accuracy or completeness of the information contained in this Official Statement and the appendices hereto. SFG is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing tax-exempt securities or other public securities.

## VERIFICATION OF MATHEMATICAL ACCURACY

Upon delivery of the Series 2016A Bonds, the Verification Agent will deliver a report stating that it has reviewed and confirmed (a) the mathematical accuracy of certain computations relating to the receipts of principal and interest on the Escrow Securities to pay the principal and redemption price of, and interest on, the Refunded Bonds when due, and (b) the computation of the yields on the Series 2016A Bonds and the Escrow Securities which support the conclusion of Bond Counsel that the interest on the Series 2016A Bonds is excluded from gross income for federal tax purposes. Such verification will be based solely upon the assumptions and the information supplied by the Underwriters on behalf of the Borrower. The Verification Agent will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information upon which the computations are based, and accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## CONTINUING DISCLOSURE

No financial or operating data concerning the Infrastructure Bank is being included or incorporated by reference in this Official Statement, and the Infrastructure Bank has not agreed to provide any such financial or operating data either currently or on an on-going basis. The Infrastructure Bank has not undertaken any responsibility or obligation regarding, and has no duty to enforce, The Regents' or the Borrower's continuing disclosure obligations with respect to the Series 2016A Bonds.

### The Regents

The Regents has covenanted for the benefit of the registered Owners and beneficial owners of the Series 2016A Bonds to provide financial information and operating data (the "Annual Report") not later than seven months after the end of the University's Fiscal Year (which Fiscal Year currently ends June 30), commencing with the report for the Fiscal Year ending June 30, 2016, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access ("EMMA") System. The specific nature of the information to be contained in the Annual Report and in the notice of enumerated events is summarized in APPENDIX F – "FORMS OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters of the Series 2016A Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

### The Borrower

The Borrower has covenanted for the benefit of the registered Owners and beneficial owners of the Series 2016A Bonds to provide financial information and operating data (the "Borrower Annual Report") not later than seven months after the end of the Borrower's Fiscal Year (which Fiscal Year currently ends December 31), commencing with the report for the Fiscal Year ending December 31 2016, and to provide notices of the occurrence of certain enumerated events. The Borrower Annual Report and the notices of enumerated events will be filed with the Municipal Securities Rulemaking Board through the EMMA System. The specific nature of the information to be contained in the Annual Report and in the notice of enumerated events is summarized in APPENDIX F – "FORMS OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters of the Series 2016A Bonds in complying with the Rule.

## SOURCES OF INFORMATION

Information about UCSD, the University and The Regents in this Official Statement has been obtained from the University. Additional information regarding UCSD, the University and The Regents is available at www.ucsd.edu, www.universityofcalifornia.edu and www.ucop.edu. No such information is a part of or incorporated into this Official Statement.

Information about the Infrastructure Bank included in this Official Statement under the headings "THE INFRASTRUCTURE BANK" and "NO LITIGATION – The Infrastructure Bank" has been obtained from the Infrastructure Bank. The Infrastructure Bank makes no representations or warranties whatsoever with respect to any information contained herein except for information contained in the section entitled "THE INFRASTRUCTURE BANK" and "NO LITIGATION – The Infrastructure Bank."

Information about the Borrower and the Consortium Facility Project included in this Official Statement has been obtained from the Borrower.

The information referred to in this section has been provided by the identified sources and neither the Borrower nor any other parties have independently verified such information. No warranty that such information is accurate or complete should be inferred.

## MISCELLANEOUS

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement that may have been made orally or in writing is to be construed as a contract with the Owners or the beneficial owners of the Series 2016A Bonds.

The Infrastructure Bank has duly authorized the distribution of this Official Statement in connection with the offering of the Series 2016A Bonds. The Borrower and The Regents have duly authorized the execution, delivery and distribution of this Official Statement in connection with the offering of the Series 2016A Bonds. The Infrastructure Bank makes no representations or warranties whatsoever with respect to any information contained herein except for information contained in the sections entitled "THE INFRASTRUCTURE BANK" and "NO LITIGATION – The Infrastructure Bank."

**SANFORD CONSORTIUM FOR REGENERATIVE MEDICINE**,
a California non-profit public benefit corporation

By: /s/ Jeffrey A. Steindorf, Ph.D.
Vice President and Chief Operating Officer

**THE REGENTS OF THE UNIVERSITY OF CALIFORNIA**

By: /s/ Sandra Kim
Authorized Representative

# APPENDIX A

# THE UNIVERSITY OF CALIFORNIA

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# APPENDIX A

## THE UNIVERSITY OF CALIFORNIA

### GENERAL

The University of California (the "University") is the public institution of higher education designated by the State of California (the "State") in its Master Plan for Higher Education for the training of individuals for the professions, for the awarding of doctoral degrees in all fields of human knowledge, and for the conduct of research. Since it was chartered in 1868, the University has conferred approximately 2,250,000 higher education degrees, as of June 30, 2014. The University's administrative offices are located in Oakland, California.

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

Classes began at Berkeley in 1873 and the University currently operates general campuses located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, Santa Barbara and Santa Cruz; a health science campus located in San Francisco; and laboratories, research stations and institutes, affiliated schools, activity locations, and a statewide Division of Agriculture and Natural Resources. The University operates a cooperative extension program reaching into nearly every area of the State and numerous public service programs. The Education Abroad Program of the University is offered at many different host institutions around the world.

The University is engaged in numerous sponsored research projects, in addition to operating one major national laboratory and being a member in a joint venture that manages two other national laboratories for the United States Department of Energy, which conduct broad and diverse basic and applied research in nuclear science, energy production, national defense, and in environmental and health areas. The University has six medical schools. In connection with five of the University's medical schools and other health science disciplines, the University operates five academic medical centers (and Children's Hospital & Research Center Oakland, which is affiliated with the University of California, San Francisco Medical Center) with a total of 3,654 licensed beds and 3,264 available beds as of March 31, 2016.

The University has a pre-eminent regular teaching faculty of approximately 10,600 members as of April 2016. Sixty-one researchers affiliated with the University have been awarded 62 Nobel Prizes, the pinnacle of achievement for groundbreaking research. University affiliated researchers have received 67 National Medals of Science – about 13 percent of the medals presented – since Congress created the award in 1959. The University has more members of the National Academy of Sciences than any other college or university. Since the first MacArthur Fellowships were bestowed in 1981, approximately 85 faculty members, researchers, artists and others affiliated with the University have been awarded these prestigious $500,000 grants. Also, more Guggenheim fellowships, 1,632, have been awarded to University faculty than to the faculty of any other university or college.

As of April 2016, in addition to the teaching faculty, the University employed, on a full-time and part-time basis, approximately 51,000 other academic personnel and approximately 149,100 staff and management personnel.

During the year ended June 30, 2015, the University provided instruction to approximately 250,000 full time equivalent undergraduate and graduate students. The following table shows enrollments (computed on the basis of full-time equivalents) by campus for general campus and health science students for Fiscal Years 2011 to 2015. Further information on University enrollment can be found at http://www.ucop.edu/operating-budget/fees-and-enrollments/fte-student-enrollments/index.html. The information contained in such website is not incorporated by reference herein.

**UNIVERSITY OF CALIFORNIA**
**FULL-TIME EQUIVALENT ENROLLMENTS[(1)] FOR FISCAL YEARS 2011 TO 2015**

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| Berkeley | 36,315 | 36,824 | 36,383 | 36,755 | 38,151 |
| Davis | 31,710 | 32,017 | 32,566 | 33,005 | 34,183 |
| Irvine | 28,265 | 28,624 | 28,802 | 30,432 | 31,549 |
| Los Angeles | 38,678 | 39,707 | 40,207 | 40,967 | 41,352 |
| Merced | 4,488 | 5,317 | 5,939 | 5,931 | 6,413 |
| Riverside | 20,295 | 20,382 | 20,338 | 20,501 | 20,930 |
| San Diego | 30,401 | 29,859 | 29,622 | 30,560 | 31,602 |
| San Francisco | 4,363 | 4,446 | 4,451 | 4,259 | 4,309 |
| Santa Barbara | 22,920 | 22,298 | 22,326 | 22,635 | 23,332 |
| Santa Cruz | 17,437 | 17,583 | 17,522 | 17,201 | 17,966 |
| Total University | **234,872** | **237,057** | **238,156** | **242,246** | **249,787** |

(1) Does not include students in self-supporting programs. Includes graduate and undergraduate students, and summer enrollment (which for 2014-15 was 16,014).
Source: University of California Office of the President ("UCOP"), Budget Analysis and Planning

## INDEBTEDNESS OF THE REGENTS

The Regents of the University of California ("The Regents") has outstanding various revenue bonds, as listed in the following table, maturing from 2016 through 2050 (excluding the final maturity of 2112 for the General Revenue Bonds, 2012 Series AD and the final maturity of 2115 for the General Revenue Bonds, 2015 Series AQ). These revenue bonds are secured by and payable from revenues of the facilities financed, investment income, student fees, rental payments, a portion of the annual General Fund support appropriation the University receives from the State and other revenues. The following table lists the public indebtedness issued by The Regents outstanding as of September 1, 2016.

### REVENUE BONDS ISSUED AND OUTSTANDING[1]
### As of September 1, 2016 (dollars in thousands)

| General Revenue Bonds | Amount Issued | Amount Outstanding |
|---|---|---|
| 2008 Series N | $ 3,990 | $ 825 |
| 2009 Series O | 732,630 | 23,595 |
| 2009 Series P | 61,590 | 5,290 |
| 2009 Series Q | 300,620 | 11,810 |
| 2009 Series R | 1,022,275 | 1,022,275 |
| 2010 Series S | 75,395 | 51,410 |
| 2010 Series T | 10,100 | 9,610 |
| 2010 Series U | 144,025 | 111,510 |
| 2011 Series W | 3,725 | 2,600 |
| 2010 Series X | 48,700 | 48,700 |
| 2011 Series Y[2] | 500,000 | 500,000 |
| 2011 Series Z[3] | 150,000 | 150,000 |
| 2011 Series AB | 354,875 | 279,180 |
| 2011 Series AC | 44,840 | 33,085 |
| 2012 Series AD | 860,000 | 860,000 |
| 2012 Series AE | 2,385 | 1,490 |
| 2013 Series AF | 805,905 | 675,185 |
| 2013 Series AG | 501,170 | 440,835 |
| 2013 Series AH | 286,515 | 286,515 |
| 2013 Series AI | 546,235 | 546,235 |
| 2013 Series AJ | 712,315 | 614,180 |
| 2013 Series AK[4] | 600,000 | 600,000 |
| 2013 Series AL[4] | 600,000 | 600,000 |
| 2014 Series AM | 559,150 | 558,880 |
| 2014 Series AN | 411,210 | 383,295 |
| 2015 Series AO | 797,020 | 775,020 |
| 2015 Series AP | 381,785 | 378,405 |
| 2015 Series AQ | 500,000 | 500,000 |
| 2016 Series AR | 410,255 | 410,255 |
| 2016 Series AS | 182,330 | 182,330 |
| 2016 Series AT[4] | 132,300 | 132,300 |
| 2016 Series AU | 88,200 | 88,200 |
| **SUBTOTAL** | **$ 11,829,540** | **$ 10,283,015** |

| | | |
|---|---|---|
| Limited Project Revenue Bonds | | |
| 2010 Series E | $ 195,675 | $ 148,310 |
| 2010 Series F | 486,130 | 486,130 |
| 2012 Series G | 899,275 | 864,850 |
| 2012 Series H | 100,420 | 100,420 |
| 2015 Series I | 1,235,030 | 1,215,900 |
| 2015 Series J | 436,455 | 435,550 |
| 2016 Series K | 434,165 | 434,165 |
| 2016 Series L | 97,905 | 97,905 |
| **SUBTOTAL** | **$ 3,885,055** | **$ 3,783,230** |
| Medical Center Pooled Revenue Bonds | | |
| 2007 Series B(5) | $ 96,155 | $ 70,880 |
| 2007 Series C-2(5) | 189,775 | 149,025 |
| 2009 Series E | 94,755 | 100 |
| 2009 Series F | 429,150 | 429,150 |
| 2010 Series G | 48,140 | 23,315 |
| 2010 Series H | 700,000 | 700,000 |
| 2010 Series I | 9,175 | 6,275 |
| 2013 Series J | 618,630 | 604,625 |
| 2013 Series K(5) | 31,300 | 31,300 |
| 2016 Series L | 872,795 | 872,795 |
| 2016 Series M | 173,360 | 173,360 |
| **SUBTOTAL** | **$ 3,263,235** | **$ 3,060,825** |
| **Total** | **$18,977,830** | **$17,127,070** |

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(1) Does not include commercial paper notes, capital leases, bank loans and indebtedness issued by conduit public entities.

(2) The 2011 Series Y Bonds bear interest at a Term Rate and the Term Rate Period for the 2011 Series Y Bonds is currently scheduled to end on July 1, 2017.

(3) The 2011 Series Z Bonds bear interest at a Weekly Rate and mature on July 1, 2041.

(4) The 2013 Series AK Bonds bear interest at a Term Rate and the initial Term Rate Period for the 2013 Series AK Bonds ends on May 14, 2023. The 2013 Series AL Bonds bear interest at a Weekly Rate and mature on May 15, 2048. In connection with the issuance of the 2013 Series AL Bonds, The Regents entered into several interest rate swaps in a total notional amount equal to the outstanding principal amount of the 2013 Series AL Bonds with a scheduled termination date of October 1, 2023. The 2016 Series AT Bonds bear interest at a Term Rate and the initial Term Rate Period for the 2016 Series AT Bonds ends on May 14, 2021.

(5) The 2007 Series B Bonds, the 2007 Series C-2 Bonds and the 2013 Series K Bonds currently bear interest at variable rates. In connection with the issuance of the 2007 Series B Bonds, the 2007 Series C-2 Bonds and the 2013 Series K Bonds, The Regents entered into interest rate swaps in notional amounts equal to all or a portion of the outstanding principal amount of the 2007 Series B Bonds, the 2007 Series C-2 Bonds and the 2013 Series K Bonds, respectively. For additional information concerning interest rate swaps, see "APPENDIX D - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015—Note 4."

Source: UCOP, Capital Markets Finance

In addition to revenue bonds, there are also outstanding commercial paper notes, capital leases, bank loans, and indebtedness issued by conduit public entities. These other obligations are described below.

Commercial Paper. The Regents has established a commercial paper program in an authorized amount of up to $2 billion. As of September 1, 2016, approximately $706,616,000 of commercial paper was outstanding.

Bank Loans and Credit Agreements. The Regents has entered into loan agreements, including revolving credit agreements, with various financial institutions. As of September 1, 2016, commitments under the agreements totaled $1,115,000,000 (all of which is secured by a pledge of General Revenues on a parity with the pledge securing The Regents' General Revenue Bonds, including $700,000,000 providing hybrid liquidity for obligations of The Regents) and outstanding principal amounts, including advances under the revolving credit agreements, totaled $300,000,000 (all of which are secured by a pledge of General Revenues on a parity with the pledge securing The Regents' General Revenue Bonds). From time to time, The Regents may enter into additional loan and revolving credit agreements.

Conduit Issuer Bonds. The California Infrastructure and Economic Development Bank (the "Infrastructure Bank") has issued bonds to finance capital improvements for the University. These bonds include revenue bonds issued in the aggregate principal amount of $207,670,000 (all of which is outstanding as of September 1, 2016) to finance the costs of Neurosciences Building 19A for the San Francisco campus. Through a capital lease, The Regents is required to make base rent payments that equal the debt service on those bonds. In addition, the Infrastructure Bank issued the Refunded Bonds in the aggregate principal amount of $62,000,000 ($56,210,000 outstanding as of September 1, 2016) to finance the costs of a stem cell research facility for a consortium of institutions conducting stem cell research, including the San Diego campus. Through a debt service payment agreement, The Regents is required to pay any debt service shortfall on these bonds. All of the outstanding Refunded Bonds will be refunded by the Series 2016A Bonds as further described in the fore-part of this Official Statement.

The California Statewide Communities Development Authority ("CSCDA") has issued bonds in an aggregate principal amount of $807,050,000 ($370,910,000 of which are outstanding as of September 1, 2016) to finance and refinance the costs of certain student housing projects for the Irvine campus. The Regents leased the site on which the student housing projects are situated to a special purpose, limited liability company that owns the projects and applies project revenues to repay these revenue bonds.

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

## THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

The Constitution of the State of California provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government subject only to such legislative control as may be necessary to ensure compliance with the terms of the endowments of the University and the security of its funds and such competitive bidding procedures as may be applicable to the University by statute for the letting of construction contracts, sales of real property, and purchasing of materials, goods and services. The Regents has a board composed of both seven ex officio members and 18 members appointed by the Governor and confirmed by the Senate, and one student Regent, who is appointed by the board, each of whom is a voting member of the board.

The members of the Board of Regents and the Officers of The Regents as of September 1, 2016 are listed below. Under the Bylaws of The Regents, nine Regents constitute a quorum for transaction of business at regular meetings of the Board, twelve Regents constitute a quorum for the transaction of business at special meetings of the Board, and a majority of such quorums are sufficient to approve most actions. As of September 1, 2016, there were two vacancies on the Board. Vacancies with respect to such appointed members must be filled by appointment by the Governor and approved by a majority vote of the State Senate, but such appointed members may serve for up to 365 days prior to Senate confirmation. Additional information and a current list of Regents can be obtained at http://regents.universityofcalifornia.edu/index.html. The foregoing website is not incorporated by reference herein.

**Appointed Regents:**

Richard C. Blum
William De La Peña, M.D.
Gareth Elliott
Russell S. Gould
Eddie Island
George Kieffer
Sherry L. Lansing
Monica C. Lozano
Hadi Makarechian
Eloy Ortiz Oakley
Norman J. Pattiz
John A. Pérez
Bonnie Reiss
Richard Sherman
Bruce D. Varner
Charlene Zettel
Marcela Ramirez[(1)]

(1) Student Regent appointed by the Board of Regents.

**Ex Officio Regents:**

Jerry Brown
Governor of California

Gavin Newsom
Lieutenant Governor

Anthony Rendon
Speaker of the Assembly

Tom Torlakson
State Superintendent of
Public Instruction

Janet Napolitano
President of the
University of California

Harvey Brody
Alumni Regent
(Vice President of the
Alumni Associations of the
University of California)

Cynthia So Schroeder
Alumni Regent
(President of the
Alumni Associations of the
University of California)

**Board Leadership:**

President
Jerry Brown
Governor of California

Chair
Monica C. Lozano

Vice Chair
Bonnie Reiss

**Officers of The Regents:**

Chief Investment Officer
Jagdeep Bachher

General Counsel
Charles F. Robinson

Secretary and Chief of Staff
Anne L. Shaw

Chief Compliance and Audit Officer
Sheryl Vacca

## FINANCIAL INFORMATION

Financial information for the University is set forth in the University's Annual Financial Report for the fiscal year ended June 30, 2015. See "APPENDIX D - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015."

## INVESTMENTS

As of June 30, 2016, the market values and investment returns for the fiscal year to date were as follows:

**(UNAUDITED)**

| | Market Value (in 000's) | Investment Return |
|---|---|---|
| Short Term Investment Pool(1) | $ 10,404,501 | 1.26% |
| Total Return Investment Pool | 8,763,014 | 0.29% |
| General Endowment Pool | 8,928,942 | -3.43% |
| University of California Retirement Plan(2) | 54,014,183 | -2.03% |

(1) Includes: (a) approximately $2.3 billion internal receivable from campuses and medical centers for funds transferred to the Retirement Plan, (b) loans in the total amount of approximately $319.0 million in the University's Mortgage Origination Program, and (c) approximately $316.8 million held by the UC Retirement Savings Program.
(2) Includes approximately $2.0 billion invested in the Short Term Investment Pool.
Source: University of California Office of the President

For additional information concerning the investments of the University, see "APPENDIX D - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015—Note 2."

## AUDITS AND COMPLIANCE REVIEWS

At all times, there are audits and compliance reviews that arise in the normal course of the University's activities. Such audits and compliance reviews may relate to any activity at the University, and may be conducted by persons within or outside the University, including but not limited to the Senior Vice President—Chief Compliance and Audit Officer of the University, the California State Auditor and a variety of other federal and State governmental agencies. Such reviews could identify improper actions by University personnel or others affecting expenditures by The Regents, and in some cases, its revenues. University management is not aware of any pending audit or review concerning matters that are likely to have a material adverse effect on The Regents' ability to make payments under the Debt Service Payment Agreement, if required to do so.

## BUDGETARY PROCESS

The following is a description of the budgetary process for the University. Because the process for developing, negotiating and allocating the capital budget differs from the operating budget, the capital budget is described below under "—Capital Budget."

**Budget Consultation:** Administrators from the Office of the President meet regularly with faculty and student groups to keep them informed of budget developments and seek their input on budget issues. Further, there are budget discussions at meetings of the Council of

Chancellors, meetings of the Council of Executive Vice Chancellors, meetings of campus Vice Chancellors for Planning and Budget, and with various other groups within the University.

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

**State Budget:** The Governor's proposed budget is released each year around the 10th of January and then revised in early May. Each February, the Legislative Analyst publishes an analysis of, and recommendations for legislative actions on, the Governor's proposed budget. The Governor's proposed budget is debated during legislative hearings and subsequently the Legislature sends its own recommended budget back to the Governor. Following the Governor's approval of the Legislature's recommended budget, it becomes final as the "State Budget Act."

For the most part, the State Budget Act appropriates funds for the operating budget of the University in a lump sum. Operating funds received from the State are allocated by the President of the University to the campuses according to a formula intended to achieve equitable State dollars provided per weighted student.

**Capital Budget:** Annually, the University prepares a multi-year State and non-State funded capital plan. After compilation and review of campus submittals by the Office of the President, discussions are held with campus representatives regarding project need, justification, priority and likelihood of funding. With regard to non-State funds, the University uses external financing, gift funds, certain fees and reserves, and other funds available to The Regents for capital projects. State funds for capital projects may take the form of (1) proceeds of State-issued general obligation bonds, (2) the pledge or use of a portion of the University's annual State general fund support appropriation to (A) secure or make debt service payments for capital expenditures funded by the University's General Revenue Bonds or commercial paper associated with the University's General Revenue Bond program or (B) secure or make availability payments, lease payments, installment payments, and other similar or related payments for capital expenditures, and (3) the use of a portion of the University's annual State general fund support appropriation to fund pay-as-you-go capital outlay projects. With respect to State funds for capital projects that take the form of proceeds of State-issued general obligation bonds, a line-item capital budget request is submitted annually to the State for approval, along with a 10-year State and non-State funded capital plan for context. Major capital projects that are State funded are approved by the State on a line-item basis; any funds requested for minor capital projects are approved on a lump-sum basis.

The process with respect to the use of a portion of the University's annual State general fund support appropriation to (1) make debt service payments for capital expenditures funded by the University's General Revenue Bonds or commercial paper associated with the University's General Revenue Bond program, (2) make availability payments, lease payments, installment payments, and other similar or related payments for capital expenditures, and (3) fund pay-as-you-go capital outlay projects is as follows. The University may apply a portion of its annual State general fund support appropriation so long as it, among other things, receives approval under the following process: 1) the University submits on or before the September 1 prior to such subsequent fiscal year, a report to the committees in each house of the Legislature that consider the annual State budget, the budget subcommittees in each house of the Legislature that consider appropriations for the University, and the Department of Finance, 2) the Department of Finance reviews the report and submits, by February 1, a list of preliminarily approved capital expenditures and capital outlay projects to the committees in each house of the Legislature that consider the annual State budget and the budget subcommittees in each house of the Legislature that consider appropriations for the University, and 3) the Department of Finance submits a final list of approved projects to the University no earlier than the following April 1.

**Recent State Support for the University:** The following table sets forth State appropriations for Fiscal Year 2011-12 through Fiscal Year 2015-16.

**STATE APPROPRIATIONS**

| Fiscal Year | State Appropriations To University[1] |
|---|---|
| 2011-12 | $2.272 billion[2] |
| 2012-13 | 2.378 billion[3] |
| 2013-14 | 2.844 billion[4] |
| 2014-15 | 2.991 billion[5] |
| 2015-16 | 3.161 billion[6] |

(1) Includes certain federal economic stimulus fund pass-through payments. Includes appropriations for lease purchase payments, State grants and direct payments to the Retirement Plan for pledges from 1990.
(2) Included $650 million in cuts included in the 2011 Budget Act plus an additional $100 million reduction triggered in mid-year when the State did not realize revenue estimates assumed in the budget.
(3) Included augmentations of $89.1 million for State's share of employer contribution to the University's retirement plan, $5.2 million for annuitant health benefit and $11.6 million for lease revenue bond debt service.
(4) Included $125 million for a deferred 2012-13 tuition and fee buyout and $200.4 million for a shift of general obligation bond debt service to the University base budget, as well as budget augmentations of $125.1 million for a 5% base budget adjustment, $6.4 million for increase in annuitant health benefit costs, and $10.2 million for increase in lease revenue bond debt service.
(5) Includes budget augmentations of $142.2 million for a 5% base budget adjustment (which includes $2 million directed to the Labor Centers at the Berkeley and Los Angeles campuses), $193.7 million for a shift of general obligation bond debt service to the University base budget, $2 million in additional one-time funds for the Labor Centers and $2 million in one-time funds for the Cal-BRAIN program at the San Diego campus.
(6) Includes a budget augmentations of $148.5 million comprised of $119.5 million for a 4% base budget adjustment, $25 million for the enrollment of 5,000 additional undergraduate resident students above 2014-15 levels by 2016-17 and $4 million directed to the Labor Centers at the Berkeley and Los Angeles campuses), as well as $203.7 million for a shift of general obligation bond debt service to the University base budget. In addition, the University received $25 million in one-time funds for deferred maintenance and $1 million in one-time funds for the Wildlife Health Center at the Davis campus.

**State Budget for the University for 2014-15**: The Governor signed the 2014-15 Budget Act on June 20, 2014. The budget provided a 5% base budget adjustment to the University, increasing the University's State General Fund support by $142.2 million. Of this amount, $2 million was directed to the Labor Centers at the Berkeley and Los Angeles campuses. The final budget also included $2 million in additional one-time funding for the Labor Centers and $2 million in one-time funding for the Cal-BRAIN program at the San Diego campus. In addition, the budget shifted $193.7 million associated with State general obligation bond debt service to the University's base budget, for a total of $2.991 billion for the University. The budget also provided $50 million for competitive innovative awards to incentivize both the University and the California State University to assist in easing transfer from California Community Colleges, increase bachelor degree completion and assist students in obtaining bachelor degrees within 4 years of entering the California higher education system. Consistent with the Governor's request, the University did not raise tuition in 2014-15.

**State Budget for the University for 2015-16:** The Governor signed the 2015-16 Budget Act on June 24, 2015. State funds allocated to the University totaled approximately $3.161 billion. Consistent with his multi-year funding plan for higher education, the proposal provided a 4% base budget adjustment, totaling $119.5 million, for the University. This funding was contingent upon no tuition and fee increases in 2015-16. Also included were $25 million for resident undergraduate enrollment growth and $4 million for the labor centers at the Berkeley and Los Angeles campuses and $203.7 million for a shift of general obligation bond debt service to the University base budget. The funding for undergraduate resident enrollment growth was contingent on the University demonstrating by May 1, 2016 that it had taken sufficient steps to increase its enrollment in 2016-17 by 5,000 California resident undergraduate students over the 2014-15 enrollment level. The 2015-16 Budget Act proposed that the other half of this cost be funded by the University through other revenue such as nonresident tuition income or through funds that could be available by eliminating the current practice of providing need-based aid to nonresident students. The University provided evidence sufficient to demonstrate that it would enroll 5,000 additional resident undergraduate students and the State augmented the University budget by $25 million. The budget also included additional one-time funds of $25 million for deferred maintenance and $1 million for the Wildlife Health Center at the Davis campus.

In addition, the 2015-16 Budget Act provided up to $436 million of Proposition 2 funds to be directed toward the unfunded liability associated with the University of California Retirement Plan. The Proposition 2 funds are payable over three years ($96 million for 2015-16 and $170 million in each of 2016-17 and 2017-18). This funding had been contingent on the University implementing a pensionable salary cap consistent with the State's Public Employee Pension Reform Act (the "PEPRA Cap"). In March 2016, the Board of Regents approved the implementation of a new set of retirement benefits that applies generally to all future University newly hired or pension-eligible employees on or after July 1, 2016. See RETIREMENT PLAN FUNDS – "Funding Status" below. The State certified that the University met the requirements in the 2015-16 Budget Act related to the PEPRA Cap and released the first installment of $96 million to be directed toward the University of California Retirement Plan unfunded liability.

**State Budget for the University for 2016-17.** The Governor signed the 2016-17 State Budget Act on June 27, 2016. The 2016-17 State Budget Act provides for a total of $3.312 billion State General Fund support, which includes a 4% base budget adjustment of $125.4 million, with the understanding that the University would again agree to keep tuition and fees flat in 2016-17. However, beginning with 2017-18, the University may increase tuition at a rate pegged generally to the rate of inflation. In addition, the State proposed an augmentation to the University base budget, $18.5 million ongoing to be funded in 2016-17, if the University meets two conditions. First, the University must demonstrate by May of 2017 that it will enroll 2,500 more resident undergraduates in academic year 2017-18 than it enrolled in 2016-17. Second, the University must adopt a policy that specifies a limit on the number of nonresident students enrolled.

The $3.312 billion State General Fund allocation provides $220.8 million for general obligation bond debt service that has been shifted to the University's base budget and one-time State General Fund support that total approximately $52 million and include: student support services ($20 million); programs fostering innovation and entrepreneurship ($22 million); research related to firearms violence ($5 million); faculty diversity efforts ($2 million); and Wildlife Health Center and Underground Scholars Initiative ($2.6 million). In addition to the State General Fund support appropriation of $3.312 billion, the 2016-17 State Budget Act also includes a second increment of Proposition 2 funds in the amount of $170 million toward the unfunded liability associated with the University of California Retirement Plan as discussed above under "State Budget for the University for 2015-16" and other one-time funds totaling $49 million, which includes funding for deferred maintenance for campus buildings and infrastructure ($35 million), precision medicine ($10 million), and student academic preparation initiatives ($4 million).

## EMPLOYER–EMPLOYEE RELATIONS

The Higher Education Employee Relations Act (HEERA), the law that provides for collective bargaining in higher education, became effective July 1, 1979. Currently, the University negotiates with eight unions representing thirteen systemwide bargaining units and with nine unions representing fourteen local bargaining units over terms and conditions of employment for approximately 70,000 of the University's employees, excluding student academic employees who are primarily employed during the academic year.

The following table shows the membership of each systemwide employee bargaining unit and the expiration dates of the applicable current labor contracts as of April 2016:

**University of California**
**Systemwide Employee Organizations**[1]

| Union | Bargaining Unit | Head Count | Contract Expiration |
|---|---|---|---|
| International Brotherhood of Teamsters 2010 | CX - Clerical & Allied Services | 11,528 | 11/30/16[2] |
| UAPD<br>Union of American Physicians & Dentists | DX –Student Health Center Physicians and Dentists | 138 | 6/30/19 |
| AFSCME<br>American Federation of State, County and Municipal Employees, AFL-CIO Local 3299 | EX - Patient Care Technical | 14,592 | 12/31/17 |
| UPTE<br>University Professional & Technical Employees, CWA, Local 9119 | HX - Residual Health Care Professionals | 3,907 | 10/31/17 |
| UC-AFT<br>American Federation of Teachers | IX – Non Senate Instructional | 3,528 | 1/31/20 |
| UC – AFT<br>American Federation of Teachers | LX – Professional Librarians | 347 | 9/30/18 |
| CNA<br>California Nurses Association | NX – Registered Nurses | 13,141 | 7/31/17 |
| FUPOA<br>Federated University Police Officers Association | PA – Police Officers | 254 | 12/31/16[2] |
| UAW Local 5810<br>International Union, United Automobile, Aerospace and Agricultural Implement Workers of America | PX – Post Doctoral Scholars | 5,763 | 9/30/16[2] |
| UPTE<br>University Professional & Technical Employees, CWA, Local 9119 | RX – Research Support Professionals | 4,775 | 9/30/17 |
| AFSCME<br>American Federation of State, County and Municipal Employees, AFL-CIO Local 3299 | SX – Service | 8,802 | 6/30/17 |
| UPTE<br>University Professional & Technical Employees, CWA, Local 9119 | TX – Technical | 3,429 | 9/30/17 |

(1) Excludes the collective bargaining unit for student employees. The number of student employees varies greatly during the academic calendar year.
(2) Contract negotiations are currently in progress.
Source: University of California Department of Labor Relations

It is always difficult to determine with assurance the future course of employer–employee relations. Nevertheless, at the present time, The Regents does not anticipate that the future labor relations climate within the University will have a material adverse impact upon the ability of The Regents to make payments under the Debt Service Payment Agreement, if required to do so.

## RETIREMENT PLAN FUNDS

**Administration:** The Regents maintains the University of California Retirement Plan (the "Retirement Plan"), a governmental defined benefit pension plan, which provides lifetime retirement income, disability protection, death benefits, and pre-retirement survivor benefits to eligible employees of the University. The Retirement Plan includes four distinct member classes ("Member Classes"). The first and largest Member Class is for members whose benefits are coordinated with Social Security. It was created in 1976 for existing employees who elected to be covered by Social Security and includes almost all new hires. The second Member Class is for members with benefits not coordinated with Social Security, including those members who did not opt-in in 1976 and certain members not eligible for Social Security coverage for other reasons, such as immigration status. The third Member Class, referred to as Tier Two, was established for a group with an alternative member contribution program. It was closed to new members in 1990. The fourth Member Class is for safety members (police and firefighters) whose benefits are not coordinated with Social Security. The first two Member Classes currently have four benefit tiers within each class: the 1976 Tier, the 2013 Tier, the Modified 2013 Tier and the 2016 Tier. Each tier bases benefits on the same components: age factor, service credit and highest average plan compensation, although the formulas relating to benefits are different.

The Regents is the trustee of the Retirement Plan, and the President of the University is the Administrator of the Retirement Plan. The University of California Human Resources and Benefits Department is responsible for the day-to-day management and operation of the Retirement Plan.

**Membership:** The following table shows the membership in the Retirement Plan for each Fiscal Year from July 1, 2011 through July 1, 2015:

**RETIREMENT PLAN MEMBERSHIP**

| July 1 | Active Vested Members | Active Nonvested Members | Terminated Vested Members[1] | Retired Members | Ratio of Retirees to Actives |
|---|---|---|---|---|---|
| 2011 | 69,979 | 45,589 | 60,903 | 56,296 | 0.49 |
| 2012 | 72,596 | 44,292 | 67,318 | 58,934 | 0.50 |
| 2013 | 75,091 | 43,230 | 73,589 | 61,715 | 0.52 |
| 2014 | 75,948 | 44,620 | 78,229 | 64,191 | 0.53 |
| 2015 | 75,158 | 48,610 | 75,165 | 67,321 | 0.54 |

The 2013 Tier of pension benefits applies to employees hired on or after July 1, 2013, which increased the early retirement age from 50 to 55 along with shifting the corresponding age factors by five years, but retained many of the prior features of the Retirement Plan. The 2013 Tier does not offer lump sum cash outs, inactive member Cost of Living Adjustments or subsidized survivor annuities for spouses and domestic partners. These changes were subject to collective bargaining for union-represented employees and the University has agreed to some

(1) Inactive members entitled to, but not yet receiving, benefits.

variations of the 2013 Tier (the Modified 2013 Tier) while keeping the University's costs fixed.[1]

In March 2016, the Board of Regents approved the implementation of a new set of retirement benefits that applies generally to all University newly hired or pension-eligible employees on or after July 1, 2016. In general, the intent of the Board's action was to limit the pensionable salary for future University employees, mirroring the cap on pensionable pay for State employees under the 2013 California Public Employees' Pension Reform Act (currently $117,020 for applicable State employees with Social Security and $140,424 for applicable State employees without Social Security). All University employees who are newly hired or become pension eligible on or after July 1, 2016 will be offered a choice between two retirement benefit programs, participating in the Retirement Plan ("Option 1") or the new stand-alone "401(k)-style" defined contribution plan ("Option 2"). Under Option 1, University employees without prior University service will receive benefits under the Retirement Plan based on pension eligible earnings up to the PEPRA Cap. In addition, the University will contribute 5.0% to a supplemental defined contribution plan for eligible faculty on all pension eligible earnings up to the Internal Revenue Service ("IRS") limit (currently $265,000). For non-eligible faculty and staff subject to the PEPRA Cap, the University will contribute an additional 3.0% to the supplemental defined contribution plan for pension eligible earnings between the PEPRA Cap up to the above referenced IRS limit. Under Option 2, new employees will be eligible for a stand-alone 401(k) style defined contribution plan for any pension eligible earnings up to such IRS limit, with the University contribution rate set at 8.0% for all employees (whether they are faculty or staff). Under both Option 1 and Option 2, the employee contribution rate for all new employees will be 7.0% of pension eligible earnings up to the IRS limit. In addition, in an effort to continue to pay down the unfunded liability for the Retirement Plan, the University would maintain a 6.0% contribution rate on pension eligible earnings up to the IRS limit with respect to employees who elect Option 2. Retirement benefit changes for union-represented employees will be effective upon completion of the collective bargaining process.

**Funding Policy:** The Retirement Plan's independent actuary annually prepares an actuarial valuation of the Retirement Plan. The purpose of the annual actuarial valuation is to disclose the Retirement Plan's funded position as of the beginning of the current fiscal year, analyze the preceding fiscal year's experience and determine the total funding policy contribution rates for the following fiscal year. The actuarial valuation includes economic assumptions based on the experience of the Retirement Plan. As of July 1, 2015, these economic assumptions include a long-term investment earnings assumption of 7.25% per year, projected salary increases ranging from 3.75-6.15% per year, cost-of-living adjustments of 2% per year and inflation of 3% per year.

The independent actuary annually determines the total funding policy contribution rate based upon methods selected by the University as follows:

First, the normal cost (the "Normal Cost") is established for the Retirement Plan. The Normal Cost represents the portion of the actuarial present value of the benefits that the

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[1] Generally, these pension benefit tiers use the same age factors as the current 1976 Tier and allow lump sum cash outs, but have higher member contribution rates for all active members.

Retirement Plan will be expected to fund that is attributable to the current year's employment. The Retirement Plan uses the entry age actuarial cost method, which is an actuarial method of calculating the anticipated cost of pension liabilities, designed to fund benefits as a level percentage of compensation over the working lifetime of the Retirement Plan's active members.

Second, the contribution calculation takes into account the amortization of a portion of the amount by which the actuarial value of the Retirement Plan liabilities exceeds the actuarial value of the Retirement Plan assets (the "UAAL").

There are a number of assumptions and calculation methods that impact the UAAL. The July 1, 2010 amortization bases were combined into a single amortization base and amortized over 30 years. Any changes in UAAL due to actuarial experience gains or losses after July 1, 2010 are separately amortized over a fixed (closed) 30-year period effective with that valuation. Any changes in UAAL due to a change in actuarial assumptions will be separately amortized over a fixed (closed) 15-year period. Any changes in UAAL due to actuarial experience gains or losses or a change in actuarial assumptions after July 1, 2014 are separately amortized over a fixed (closed) 20-year period. The market value of assets less unrecognized returns in each of the last five years is used to calculate the actuarial value of the retirement plan assets. Unrecognized return is equal to the difference between the actual and the expected returns on a market value basis and is recognized over a five-year period.

While the independent actuary annually determines total funding policy contributions, the University is not required to contribute an amount equal to its total funding policy contribution. The actual contributions and the contribution rates of the University and employees are based on numerous factors, including the availability of funds to the University, the impact of employee contributions on the competitiveness of the University's total remuneration package, and collective bargaining agreements.

**Funding Status:** The unfunded liability for the campuses and medical centers as of the July 1, 2015 and 2014 actuarial valuation was $10.9 and $10.7 billion, respectively, or 80.7% and 79.2% funded, respectively, on an actuarial value of assets basis. This increase in funded ratio is mainly a result of the investment gain on the actuarial value of assets.

The total funding policy contributions related to campuses and medical centers in both the July 1, 2014 actuarial valuation (effective for Fiscal Year 2015-16) and the July 1, 2013 actuarial valuation (effective for Fiscal Year 2014-15) were $2.7 billion. Employer contributions for Fiscal Years 2014-15 and 2013-14 were approximately $2.1 billion and $1.1 billion, respectively, for the campuses and the medical centers. The total funding policy contributions in the July 1, 2014 and July 1, 2013 actuarial valuations represent 28.8% and 30.3% of covered compensation, respectively.

Effective July 1, 2014, member and employer contributions increased to 8.0% (for most members) and 14.0%, respectively. Member contributions for the employees in the new benefit tiers (2013 Tier, Modified 2013 Tier and 2016 Tier) described above are 7.0%-9.0%, and the employer rate is uniform at 14.0% across all members. These contribution rates are below the Retirement Plan's total funding policy requirements.

The 2015-16 State Budget provided $436 million in one-time funds over the next three years in Proposition 2 debt repayment funds for the Retirement Plan, including $96 million in 2015-16 and $170 million in each of 2016-17 and 2017-18 contingent upon Regental approval of a cap on pensionable salary at the same level as the PEPRA Cap for the defined benefit plan for future employees hired on or after July 1, 2016, which approval occurred in March 2016.

The Regents has delegated to the President of the University the authority and discretion to fully fund the unfunded portion of the Normal Cost and interest on the UAAL (the "modified ARC") through a combination of transfers from the Short Term Investment Pool, sale of long-term debt and restructuring of existing debt. In March 2011, The Regents approved a $2.1 billion funding plan for the Retirement Plan and in April 2011, $1.1 billion from the Short Term Investment Pool was transferred to the Retirement Plan. On July 27, 2011, The Regents issued $1.2 billion of General Revenue Bonds, 2011 Series Y, 2011 Series Z and 2011 Series AA and approximately $935 million of the proceeds of those bonds were applied to fund a portion of the annual required contribution (the "ARC"). In July 2014, The Regents authorized additional contributions of $700 million to the Retirement Plan to improve the Plan's funded status, and the contributions were made to the Retirement Plan from the University's Short Term Investment Pool on August 1, 2014. In November 2015, the Regents authorized additional contributions up to $563.6 million in Fiscal Year 2015-16, $481 million in Fiscal Year 2016-17, and $391.8 million in Fiscal Year 2017-18, to bring the total annual contribution up to the total ARC for each of those years based on certain conditions, including, but not limited to, maintaining a minimum balance in the Short Term Investment Pool of $5 billion and the receipt of Proposition 2 funds from the State as described above under "BUDGETARY PROCESS – State Budget for the University for 2015-16". Contributions of $563.6 million were transferred to the Retirement Plan from the University's Short Term Investment Pool on December 1, 2015.

The national laboratory "segments" of the Retirement Plan are accounted for and evaluated separately from those of the campus and medical center segment.(1) Recognizing that the Lawrence Berkeley National Laboratory ("LBNL") segment is significantly higher funded than the campus and medical center segment, effective October 2015, the contribution rate for the LBNL was set at a rate proportionate to the funded ratios of the LBNL segment and the campus and medical center segment, determined on an actuarial value of assets basis as of the previous valuation date (July 1, 2014 for the October 1, 2015 rate). Prior to October 2015, the LBNL employer contribution rate was set at the same rate as the campus and medical center segment.

The U.S. Department of Energy is contractually required to make contributions to the Retirement Plan on behalf of Los Alamos National Laboratory ("LANL") and Lawrence Livermore National Laboratory ("LLNL") retirees as determined by the annual actuarial valuation of each national laboratory segment.

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(1) There are four separate and distinct "segments" that comprise the Retirement Plan as a whole: the campus/medical center segment, the LBNL segment, the Lawrence Livermore National Laboratory segment, and the Los Alamos National Laboratory segment.

The table below shows the fair market value of assets held in trust for payment of pension benefits; the actuarial value of assets held in trust adjusted according to the Retirement Plan's actuarial methods as summarized above; the actuarial accrued liability of the Retirement Plan; the actuarial (deficit) surplus, the funded ratio on an actuarial and market value basis; the annual covered member payroll and the unfunded actuarial accrued liability or surplus as a percentage of covered payroll as of July 1, 2011 through July 1, 2015.

**Retirement Plan Funding(1)**
**(dollars in millions)**

| Actuarial Valuation Date | Market Value of Assets | Actuarial Value of Assets | Actuarial Accrued Liability | Actuarial (Deficit) Surplus | Funded Ratio (Actuarial Basis) | Funded Ratio (Market Basis) | Annual Covered Payroll | Actuarial (Deficit) Surplus of Annual Covered Payroll |
|---|---|---|---|---|---|---|---|---|
| July 1, 2011 | 41,872.7 | 42,757.3 | 51,831.3 | (9,074.0) | 82.5% | 80.8% | 8,163.0 | (111.2%) |
| July 1, 2012 | 41,806.5 | 42,965.0 | 54,619.6 | (11,654.6) | 78.7% | 76.5% | 8,598.1 | (135.5%) |
| July 1, 2013 | 45,340.7 | 43,572.4 | 57,381.0 | (13,808.6) | 75.9% | 79.0% | 8,836.5 | (156.3%) |
| July 1, 2014 | 52,783.9 | 48,328.0 | 60,417.2 | (12,089.2) | 80.0% | 87.4% | 9,299.8 | (130.0%) |
| July 1, 2015 | 55,055.4 | 53,762.3 | 65,841.3 | (12,079.0) | 81.7% | 83.6% | 9,927.8 | (121.7%) |

(1) Includes campuses, medical centers and laboratories.

Source: University of California Office of the President, University of California Retirement Plan Annual Financial Report and the University of California Retirement Plan Actuarial Valuation Report

**Asset Management Plan:** The Regents, as the governing board and as trustee, is responsible for the oversight of the Retirement Plan's investments and establishes investment policy, which is carried out by the Office of the Chief Investment Officer of The Regents. The Office of the Chief Investment Officer has primary responsibility for investing the Retirement Plan's assets consistent with the policies established by The Regents.

Over the past ten years, the Retirement Plan's asset allocation targets have been adjusted periodically to diversify the assets over multiple asset classes, investment styles and strategies. The result has been a movement away from a single, concentrated source of risk (primarily U.S. equities) toward a balanced and diversified portfolio across global assets and risk factors that are less correlated with markets. Currently, the assets of the Retirement Plan are invested across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Retirement Plan also holds international equities, global sovereign and corporate debt, global public and private real estate, and an array of alternative investments including private equity, venture capital, real estate, and real assets.

**Recent GASB Statements:** For prior years the University's liability to the Retirement Plan was shown in terms of unfunded policy contributions. However, the University implemented both GASB Statement Nos. 67 and 68 commencing with the fiscal year ended June 30, 2014. GASB 68 requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. As a result, the University is no longer reporting its liability for unfunded contribution to the Retirement Plan in its annual financial reports, but rather its net pension liability to the Retirement Plan. As of June 30, 2014, the University reported a net pension liability to the Retirement Plan of $7.7 billion. As of June 30, 2015, the University reported a net pension liability to the Retirement Plan of $10.6 billion. The increase in net pension liability was due primarily to lower than expected investment returns and recent assumptions changes, including among other changes, lowering the expected return from 7.50% to 7.25% and modification of the mortality assumptions. For a further description of the impact of the implementation of GASB 67 and GASB 68, see "APPENDIX D - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015", including – "Management's Discussion and Analysis – The University of California Retirement System (UCRS)" and – "Required Supplementary Information."

For more information on the University's pension plan funds, see "APPENDIX D - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015", including – "Management's Discussion and Analysis – The University of California Retirement System (UCRS)" and – "Required Supplementary Information."

## RETIREE HEALTH PLAN FUNDS

**Description:** The University administers the Retiree Health Benefit Program (the "Retiree Health Plan"). The Retiree Health Plan is a single-employer health and welfare plan to provide health and welfare benefits (primarily medical, dental and vision) to eligible retirees and their families and survivors (retirees) of the University and its affiliates. Membership in the Retirement Plan or participation in the defined contribution plan (Option 2 described above) is required to become eligible for retiree health benefits. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by the University after 1989 and prior to July 1, 2013 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. Retirees employed by the University on or after July 1, 2013 are subject to graduated eligibility provisions based on both a member's age and years of Retirement Plan service credit upon retirement(1). Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the University's maximum contribution.

**Funding Policy:** The contribution requirements of the University and eligible retirees are established and may be amended by the University. The contribution requirements are based upon projected pay-as-you-go financing. 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.

(1) In addition, members of the HX, NX, RX, EX, SX and TX bargaining units negotiated the effective date of revised eligibility rules for Retiree Health Plan benefits as part of contract negotiations. Generally, new employees hired after the negotiated effective date of revised eligibility rules must retire at 65 and have worked at least 20 years in order to receive the maximum employer contribution to the retiree health premium.

On July 1, 2007, The Regents established the University of California Retiree Health Benefit Trust (the "Trust"). While the University does not currently pre-fund retiree health benefits, if pre-funding occurs in the future, the Trust will be used as the funding vehicle. As of June 30, 2015, the balance in the Trust was $51 million.

The actuarial methods and assumptions used in the most recent actuarial valuation (as of July 1, 2015) include the entry age normal actuarial cost method; a 4.50% discount rate (long-term rate of return on investments assumption); health care cost trend rate ranging from 7.3% to 10.0% for non-Medicare and 6.6% to 8.3% for Medicare initially, depending on the type of plan, reduced by increments to an ultimate rate of 5% over 15 years; amortization of the initial UAAL and any UAAL due to assumption or provision changes over 30 years; and amortization of any UAAL due to gains or losses, including changes due to contributions different from the ARC and experience different from expected, over 15 years.

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**Funding Status:** As of July 1, 2014 and July 1, 2015, the Retiree Health Plan's independent actuary reported that the UAAL of the Retiree Health Plan for campuses and medical centers was approximately $14.0 billion and $17.3 billion, respectively. The following table sets forth the ARC; ARC as a percentage of payroll; UAAL; Pay-as-you-go costs; and Net OPEB Obligation as of July 1, 2014 and July 1, 2015:

**Retiree Health Plan**
**Actuarial Valuation Highlights**

**Campuses and Medical Centers[(1)]**
**(Dollars in Millions)**

| Valuation Date | July 1, 2015 | July 1, 2014 |
|---|---|---|
| Actuarial Valuation Results | | |
| 1. Annual Required Contribution (ARC)[(2)] | | |
| a. Normal Cost | $ 641 | $ 507 |
| b. Amortization Cost | 1,433 | 1,269 |
| c. Total | $ 2,074 | $ 1,776 |
| 2. ARC as % of Payroll | | |
| a. Normal Cost | 6.6% | 5.6% |
| b. Amortization Cost | 14.8% | 14.0% |
| c. Total | 21.4% | 19.6% |
| 3. Unfunded Accrued Actuarial Liability (UAAL) | $ 17,270 | $ 14,029 |
| 4. Pay-As-You-Go Cash Costs[(3)] | $ 287 | $ 271 |
| 5. Net OPEB Obligation | | |
| a. Beginning of the Year | $ 9,121 | $ 8,197 |
| b. End of the Year | $10,186 | $ 9,121 |

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(1) LBNL participates in the University's retiree health plans. The University directly pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at LBNL, and is reimbursed by the DOE. The University does not have any obligation for LANL or LLNL retiree health benefit costs because they do not participate in the University's retiree health plans.

(2) The ARC and its components are expressed as of the end of the fiscal year.

(3) Historical cash costs are actual amounts paid; current year cash costs are projected.

**Recent GASB Statements:** In June 2015, the GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for the University's fiscal years beginning July 1, 2016 and July 1, 2017, respectively. These Statements revise existing standards for measuring and reporting retiree health benefits provided by the University to its employees. In addition, these Statements require recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefit liability less the amount of the Retiree Health Plan's fiduciary net position. The total retiree health benefit liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the Retiree Health Plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. GASB No. 75 requires that most changes in the net retiree health benefit liability be included in retiree health benefit expense in the period of change. As of June 30, 2015, the University reported a retiree health benefit obligation of $9.4 billion. Under GASB Statement No. 75, the University is required to record the entire unfunded liability for retiree health benefits, which was $17.3 billion in the July 1, 2015 actuarial valuation. Some of the methods and assumptions required under GASB Statement No. 75 are different from the assumptions used in the actuarial valuation; therefore, the University's actual retiree health liability under GASB Statement No. 75 may vary based on the various assumptions used in the calculations.

For more information on the Retiree Health Plan and Trust, see "APPENDIX D - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015 – Management's Discussion and Analysis – The University of California Retiree Health Benefit Trust (UCRHBT)."

# APPENDIX B

## THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2014-2015

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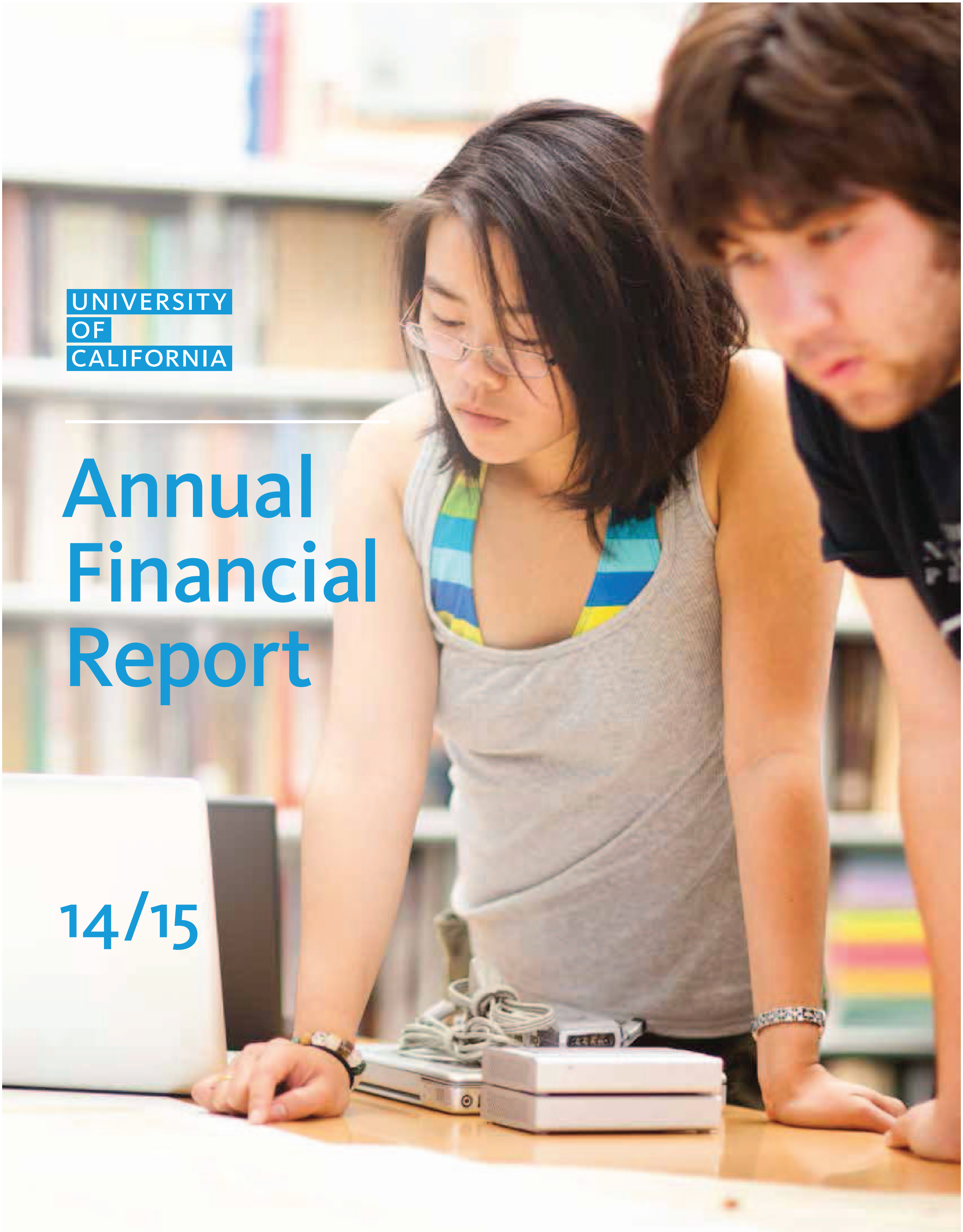

UNIVERSITY
OF
CALIFORNIA

# Annual Financial Report

14/15

“The University of California is preeminent in educating the state’s young people, in enhancing research and scholarship in every discipline, in fostering economic growth, medicine, the arts, its athletic and other programs. Simply put, UC is the gold standard.”

PRESIDENT JANET NAPOLITANO

UNIVERSITY OF CALIFORNIA

# 14/15 Annual Financial Report

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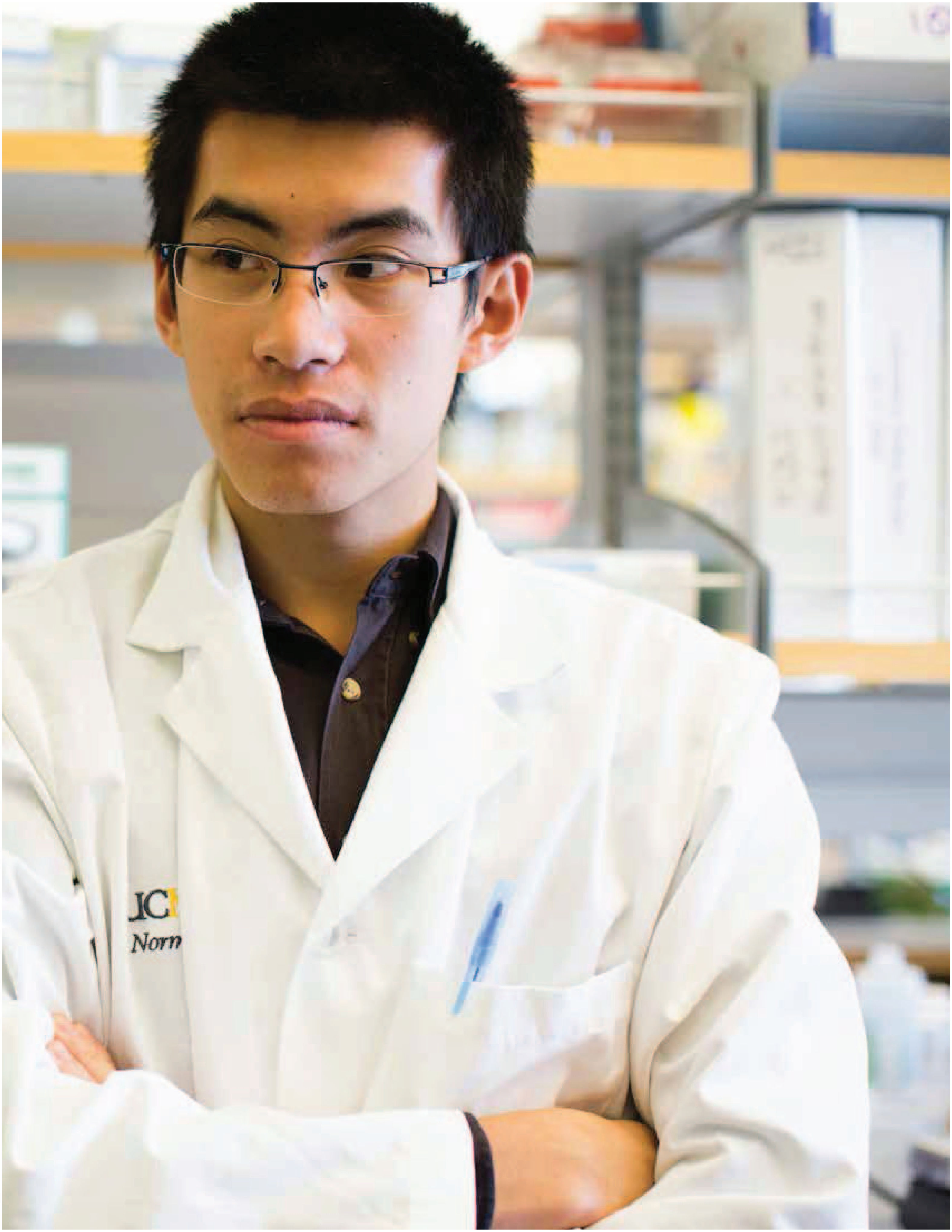


# Letter from the President

My second year as President of the University of California was another challenging but exciting one. I'm pleased to say that we made significant strides in ensuring a stable and bright future for UC.

We continued our work on initiatives focused on areas of critical importance to the University, to California and to the world. These included supporting innovation, entrepreneurship and technology commercialization at UC, as well as concerted, system-wide efforts to achieve carbon neutrality by 2025.

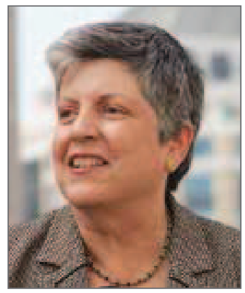
The University also focused on further streamlining the transfer process to UC for California Community College students, and reaffirmed its commitment to finding solutions for global hunger and other food-related issues.

This year was also remarkable with regard to our advocacy efforts for the University. This past spring, we reached a budget agreement with the governor and California Legislature that provides significant new revenue and more predictable funding for UC. This agreement also caps resident tuition at its current level for the next two years — a considerable benefit to California students and their families.

Our partnership with state leaders in Sacramento will continue this year as we work together to increase the enrollment of California students at UC.

As the University's chief advocate, I have made it my goal to demonstrate our ongoing contributions to the state and nation's economies, as well as the long-lasting benefits of a UC education in the lives of our students.

These impacts cannot be understated. One in 46 jobs in California is supported by UC operations, and the economic impact of the University is $46.3 billion



annually. In addition, 42 percent of UC's undergraduates are first-generation college students, and 41 percent qualify for Federal Pell Grants — meaning they come from low-income families.

The University's invaluable research and the services provided by our academic health systems are also notable. UC proudly claims 61 Nobel Prize winners, 67 National Medal of Science winners and 264 Fulbright Award recipients. UC medical centers and clinics count 4.5 million outpatient visits each year, with Medicare, Medi-Cal and uninsured patients reaching 60 percent.

The University of California will continue to be an engine of social and economic mobility in this state, on a large scale and on an individual basis. And we remain committed to our research and public service missions, all while educating thousands of California students.

Janet Napolitano

JANET NAPOLITANO
PRESIDENT, UNIVERSITY OF CALIFORNIA

# Letter from the Executive Vice President, CFO

This past year has been one of positive growth and transformation for the University of California. We made important strides on many fronts, most notably with the establishment of a long-term budget framework with state lawmakers.

Successful negotiations with Gov. Jerry Brown and the California Legislature have resulted in much-needed stability to the university's financial outlook. Under the agreed upon framework, UC's base budget will increase by 4 percent over each of the next four years. Tuition will remain at current levels for two years and then rise generally by the rate of inflation. We will also receive one-time funding for UC's retirement plan, a welcome infusion that reflects the state's acknowledgment that it shares some responsibility for those costs.

For UC and its students, this framework is a big step forward: We now have predictable state support and a clear and moderate tuition plan, both of which are crucial for long-term planning.

Yet even with this historic agreement, UC faces a fiscal challenge if it is to make necessary investments in academic excellence while continuing to offer an affordable, accessible education to the growing numbers of bright California students who seek a UC education.

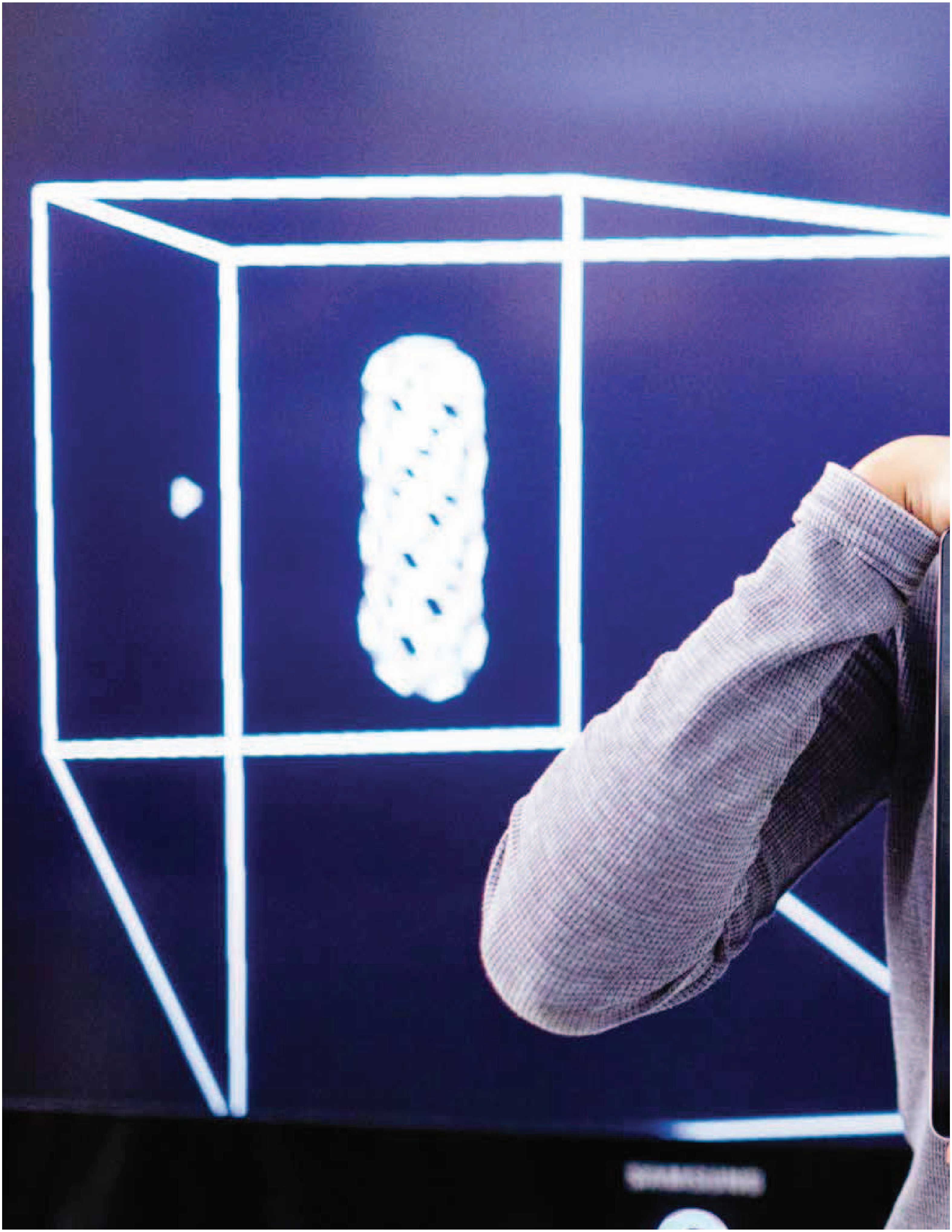
The university is working to meet the challenge by moving aggressively on two fronts.

First, we are cutting administrative costs through a variety of systemwide efficiency programs that leverage the size and scope of the university. Our systemwide procurement program, for example, captured roughly $170 million in savings this past year by harnessing the collective purchasing power of our campuses — putting UC well ahead of schedule for saving $200 million annually by 2016-17. We are also modernizing and consolidating our payroll and HR systems, an ambitious undertaking that, once complete, will result in significant operational efficiencies.

Second, we are developing alternative revenue sources that can help UC with its ongoing operational costs. Changes in how we manage operating capital, for instance, have freed up discretionary revenue for campuses. We are also developing new ways to structure private giving so that it can support UC's core operations. A Presidential Match for Endowed Chairs, launched last year, is expected to create up to 100 new endowed chairs over the next four years. Each of these will provide support, in perpetuity, for scholarly activities, faculty salaries and graduate fellowships.

Our ultimate goal, of course, is to ensure that the University of California remains one of the world's top research universities, serving as a catalyst across the state for economic growth, social mobility and scientific advancement. We enter the coming year more committed than ever to that role.

NATHAN BROSTROM
EXECUTIVE VICE PRESIDENT, CFO
UNIVERSITY OF CALIFORNIA



# Facts in Brief *(Unaudited)*

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| STUDENTS | | | | | |
| Undergraduate fall enrollment | 195,078 | 191,369 | 183,498 | 184,562 | 179,581 |
| Graduate fall enrollment | 57,185 | 52,757 | 55,188 | 52,129 | 54,883 |
| **Total fall enrollment** | **252,263** | **244,126** | **238,686** | **236,691** | **234,464** |
| University Extension enrollment | 374,442 | 367,355 | 343,758 | 321,582 | 302,179 |
| **FACULTY AND STAFF**[1] *(full-time equivalents)* | **145,903** | **142,164** | **139,965** | **137,546** | **136,145** |
| **SUMMARY FINANCIAL INFORMATION** *(in thousands of dollars, except for retirement plan participation)* | | | | | |
| **UNIVERSITY OF CALIFORNIA** | | | | | |
| PRIMARY REVENUE SOURCES | | | | | |
| Student tuition and fees, net[2] | $ 3,784,046 | $ 3,585,859 | $ 3,402,946 | $ 3,237,126 | $ 2,811,121 |
| Grants and contracts, net | 5,153,395 | 5,068,233 | 5,078,750 | 5,240,289 | 5,249,094 |
| Medical centers, educational activities and auxiliary enterprises, net | 13,106,962 | 11,750,586 | 10,890,244 | 10,067,147 | 9,406,993 |
| State educational, financing and capital appropriations | 2,812,634 | 2,683,315 | 2,484,877 | 2,303,330 | 3,042,795 |
| Federal Pell Grants | 376,186 | 316,064 | 345,910 | 359,408 | 352,469 |
| Private gifts, net | 957,131 | 881,648 | 801,940 | 804,691 | 816,291 |
| Capital gifts and grants, net | 142,986 | 431,836 | 256,670 | 198,023 | 247,259 |
| Department of Energy laboratories | 1,234,509 | 1,250,820 | 1,032,350 | 1,014,199 | 976,294 |
| OPERATING EXPENSES BY FUNCTION | | | | | |
| Instruction | 5,917,933 | 5,477,857 | 5,477,776 | 5,509,027 | 4,925,863 |
| Research | 4,220,055 | 3,837,361 | 4,287,561 | 4,533,125 | 4,249,411 |
| Public service | 560,609 | 581,069 | 554,231 | 620,884 | 582,868 |
| Academic support | 1,919,266 | 1,835,476 | 2,008,866 | 2,003,770 | 1,716,006 |
| Student services | 983,275 | 923,284 | 819,209 | 814,340 | 701,800 |
| Institutional support | 2,215,700 | 1,463,248 | 1,361,439 | 1,207,733 | 1,242,786 |
| Operation and maintenance of plant | 573,323 | 618,030 | 640,712 | 610,968 | 582,315 |
| Student financial aid[3] | 553,181 | 580,807 | 603,805 | 600,655 | 600,713 |
| Medical centers | 7,726,737 | 7,481,938 | 7,201,528 | 6,984,842 | 6,078,510 |
| Auxiliary enterprises | 1,159,059 | 1,104,050 | 1,153,775 | 1,124,704 | 1,012,309 |
| Depreciation and amortization | 1,661,033 | 1,709,672 | 1,555,254 | 1,478,254 | 1,404,837 |
| Impairment of capital assets | 11,220 | 11,201 | 31,441 | | |
| Department of Energy laboratories | 1,228,125 | 1,244,335 | 1,026,088 | 1,007,804 | 970,054 |
| Other | 72,198 | 81,061 | 123,513 | 104,576 | 86,252 |
| INCREASE (DECREASE) IN NET POSITION | (80,329) | 1,369,113 | (1,334,155) | (3,086,015) | 413,693 |
| FINANCIAL POSITION | | | | | |
| Investments, at fair value | 22,289,147 | 21,541,053 | 18,942,008 | 18,292,398 | 18,258,665 |
| Capital assets, at net book value | 28,374,629 | 27,361,525 | 26,179,885 | 25,216,265 | 23,743,797 |
| Other assets and deferred outflows | 13,049,229 | 11,565,457 | 14,808,621 | 16,447,696 | 7,843,699 |
| Outstanding debt, including capital leases | (19,020,755) | (18,030,749) | (17,236,225) | (17,459,934) | (13,577,911) |
| Obligations for pension and retiree health benefits | (20,010,357) | (16,154,166) | (19,915,231) | (22,738,325) | (6,982,866) |
| Other liabilities and deferred inflows | (13,480,363) | (15,001,261) | (12,866,312) | (8,387,164) | (9,520,612) |
| Net position | 11,201,530 | 11,281,859 | 9,912,746 | 11,370,936 | 19,764,772 |

*[1] As of October 31*

*[2] Scholarship allowances, including both financial aid and fee waivers that are not paid directly to students, are recorded primarily as a reduction of student tuition and fees in the statement of revenues, expenses and changes in net position.*

*[3] Includes only financial aid paid directly to students. The state-administered California grant awards are not included as expenses since the government determines grantees. College work study expenses are shown in the programs in which the student worked.*

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **SUMMARY FINANCIAL INFORMATION** *(in thousands of dollars, except for participant information)* | | | | | |
| **UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS** | | | | | |
| PRIMARY REVENUE SOURCES | | | | | |
| Private gifts, net | $ 765,445 | $ 789,573 | $ 711,363 | $ 596,242 | $ 880,889 |
| PRIMARY EXPENSES | | | | | |
| Grants to campuses | 827,467 | 958,873 | 632,132 | 559,301 | 496,704 |
| INCREASE IN NET POSITION | 455,416 | 849,091 | 746,263 | 125,506 | 1,226,285 |
| FINANCIAL POSITION | | | | | |
| Investments, at fair value | 7,084,587 | 6,496,649 | 5,799,788 | 5,161,217 | 5,151,869 |
| Pledges receivable, net | 822,530 | 861,005 | 713,710 | 641,134 | 553,900 |
| Net position | 7,550,329 | 7,094,913 | 6,245,822 | 5,535,441 | 5,409,935 |
| **UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM** | | | | | |
| PLAN PARTICIPATION | | | | | |
| Plan membership | 266,254 | 262,988 | 243,140 | 232,767 | 223,867 |
| Retirees and beneficiaries currently receiving payments | 67,321 | 64,191 | 58,934 | 56,296 | 53,902 |
| PRIMARY REVENUE SOURCES | | | | | |
| Contributions [1] | $4,458,802 | $ 3,215,712 | $ 2,175,983 | $ 3,101,629 | $ 2,693,892 |
| Interest, dividends and other investment income, net | 1,323,449 | 1,344,731 | 1,254,981 | 907,739 | 1,316,306 |
| Net appreciation (depreciation) in the fair value of investments | 1,320,388 | 9,137,618 | 5,106,081 | (597,030) | 8,541,574 |
| PRIMARY EXPENSES | | | | | |
| Benefit payments | 2,803,627 | 2,583,223 | 2,396,577 | 2,184,450 | 2,047,747 |
| Participant and member withdrawals | 1,730,362 | 1,369,641 | 1,364,304 | 940,367 | 939,338 |
| INCREASE IN NET POSITION | 2,515,920 | 9,701,107 | 4,731,316 | 249,762 | 9,529,389 |
| FINANCIAL POSITION | | | | | |
| Investments, at fair value | 71,595,607 | 68,747,604 | 60,104,811 | 54,408,678 | 54,218,018 |
| Members' defined benefit pension plan benefits | 55,122,875 | 52,853,829 | 45,404,828 | 41,868,728 | 41,940,183 |
| Participants' defined contribution plan benefits | 20,291,028 | 20,044,154 | 17,792,048 | 16,596,832 | 16,275,615 |
| ACTUARIAL INFORMATION *(as of the beginning of the year)* | | | | | |
| Actuarial value of assets | 48,327,981 | 43,572,353 | 42,965,028 | 42,757,271 | 41,195,318 |
| Actuarial accrued liability | 60,417,177 | 57,380,961 | 54,619,620 | 51,831,306 | 47,504,309 |
| **UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST** | | | | | |
| PLAN PARTICIPATION | | | | | |
| Plan membership | 157,221 | 154,930 | 151,458 | 148,704 | 146,524 |
| Retirees and beneficiaries currently receiving benefits | 38,488 | 37,207 | 35,872 | 34,559 | 33,530 |
| PRIMARY REVENUE SOURCES | | | | | |
| Contributions | $ 315,586 | $ 343,395 | $ 267,886 | $ 329,529 | $ 287,842 |
| Interest, dividends and other investment income, net | 41 | 13 | | 14 | 84 |
| PRIMARY EXPENSES | | | | | |
| Insurance premiums | 327,019 | 318,490 | 313,105 | 311,297 | 284,010 |
| INCREASE (DECREASE) IN NET POSITION | (14,539) | 20,884 | (45,219) | 18,246 | 1,919 |
| FINANCIAL POSITION | | | | | |
| Investments, at fair value | 24,250 | 37,125 | 7,750 | 65,053 | 27,795 |
| Net position for retiree health benefits | 50,645 | 65,184 | 44,300 | 89,519 | 71,273 |
| ACTUARIAL INFORMATION *(as of the beginning of the year)* | | | | | |
| Actuarial value of assets | 65,184 | 44,300 | 97,435 | 77,907 | 74,450 |
| Actuarial accrued liability | 14,093,786 | 13,253,215 | 14,559,017 | 14,726,665 | 15,493,742 |

[1] *Total contributions to the University of California Retirement Plan and the University of California Retirement Savings Plan.*

# Campus Facts in Brief *(Unaudited)*

| | BERKELEY | DAVIS | IRVINE | LOS ANGELES | MERCED | RIVERSIDE |
|---|---|---|---|---|---|---|
| STUDENTS | | | | | | |
| Undergraduate fall enrollment | 27,126 | 27,728 | 24,556 | 29,633 | 5,884 | 18,814 |
| Graduate fall enrollment | 10,455 | 7,687 | 6,201 | 13,606 | 384 | 2,866 |
| **Total fall enrollment** | **37,581** | **35,415** | **30,757** | **43,239** | **6,268** | **21,680** |
| University Extension enrollment[1] | 39,259 | 62,236 | 33,882 | 120,937 | | 30,412 |
| DEGREES CONFERRED[2] | | | | | | |
| Bachelor | 7,565 | 6,765 | 5,997 | 7,421 | 1,050 | 4,576 |
| Advanced | 3,541 | 1,929 | 1,813 | 4,417 | 56 | 823 |
| Cumulative | 615,296 | 258,019 | 175,393 | 539,792 | 3,918 | 103,062 |
| FACULTY AND STAFF[3] *(full-time equivalents)* | 15,132 | 22,757 | 13,907 | 32,873 | 1,798 | 5,146 |
| LIBRARY COLLECTIONS[4] *(volumes)* | 12,548,223 | 4,510,293 | 3,430,327 | 10,017,525 | 1,357,538 | 3,493,927 |
| CAMPUS LAND AREA *(in acres)* | 6,679 | 7,309 | 1,527 | 420 | 7,549 | 2,150 |
| CAMPUS FINANCIAL FACTS[5] *(in thousands of dollars)* | | | | | | |
| OPERATING EXPENSES BY FUNCTION | | | | | | |
| Instruction | $ 820,992 | $ 759,365 | $ 627,694 | $1,818,660 | $ 52,545 | $ 252,873 |
| Research | 572,707 | 528,573 | 235,458 | 737,086 | 21,835 | 108,631 |
| Public service | 69,328 | 79,323 | 8,495 | 121,828 | 4,034 | 6,326 |
| Academic support | 164,031 | 201,943 | 145,985 | 547,527 | 21,796 | 38,461 |
| Student services | 202,648 | 134,732 | 84,965 | 150,455 | 22,775 | 74,469 |
| Institutional support | 186,107 | 116,300 | 87,978 | 240,073 | 59,546 | 54,540 |
| Operation and maintenance of plant | 70,853 | 92,428 | 41,196 | 95,744 | 16,244 | 36,220 |
| Student financial aid | 134,788 | 52,553 | 73,012 | 12,242 | 13,465 | 60,179 |
| Medical centers | | 1,588,921 | 799,212 | 1,742,970 | | |
| Auxiliary enterprises | 131,095 | 98,240 | 138,242 | 332,143 | 19,418 | 71,960 |
| Depreciation and amortization | 201,562 | 195,669 | 185,043 | 347,899 | 25,843 | 67,202 |
| Impairment of capital assets | | 1,082 | 1,803 | 4,124 | | 534 |
| Other[6] | 12,345 | 2,789 | 9,944 | 21,848 | 4,278 | 5,217 |
| **Total** | **$2,566,456** | **$3,851,918** | **$2,439,027** | **$6,172,599** | **$261,779** | **$776,612** |
| GRANTS AND CONTRACTS REVENUE | | | | | | |
| Federal government | $ 417,309 | $ 370,551 | $ 185,543 | $ 584,471 | $ 16,556 | $ 69,693 |
| State government | 82,952 | 130,157 | 21,577 | 52,738 | 696 | 7,226 |
| Local government | 8,111 | 12,756 | 4,419 | 60,892 | 120 | 1,920 |
| Private | 189,967 | 143,269 | 61,382 | 210,735 | 3,607 | 27,334 |
| **Total** | **$ 698,339** | **$ 656,733** | **$ 272,921** | **$ 908,836** | **$ 20,979** | **$ 106,173** |
| UNIVERSITY ENDOWMENTS AND GIFTS | | | | | | |
| Nonspendable endowments and gifts | $ 379,205 | $ 116,459 | $ 11,067 | $ 258,610 | $ 16,180 | $ 12,982 |
| Restricted endowments and gifts | 1,938,001 | 531,179 | 93,754 | 1,337,860 | 20,697 | 52,812 |
| Annual income distribution | 80,942 | 23,025 | 3,449 | 37,180 | 1,382 | 1,967 |
| CAMPUS FOUNDATIONS' ENDOWMENTS AND GIFTS | | | | | | |
| Nonspendable endowments and gifts | $ 955,461 | $ 204,504 | $ 201,165 | $ 961,752 | $ 7,120 | $ 84,538 |
| Restricted endowments and gifts | 878,939 | 175,535 | 154,724 | 1,366,720 | 3,168 | 56,921 |
| CAPITAL ASSETS | | | | | | |
| Capital assets, at net book value | $3,918,971 | $3,161,199 | $2,631,782 | $5,891,217 | $564,835 | $1,126,298 |
| Capital expenditures | 373,673 | 228,074 | 181,430 | 492,847 | 49,476 | 65,950 |

*[1] For academic year 2014-15.*
*[2] As of academic year 2013-14.*
*[3] As of October 2014.*
*[4] As of June 30, 2014.*
*[5] Excludes DOE laboratories.*
*[6] Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.*

| | SAN DIEGO | SAN FRANCISCO | SANTA BARBARA | SANTA CRUZ | SYSTEMWIDE[7] |
|---|---|---|---|---|---|
| STUDENTS | | | | | |
| Undergraduate fall enrollment | 24,810 | | 20,250 | 16,277 | |
| Graduate fall enrollment | 6,692 | 4,904 | 2,801 | 1,589 | |
| **Total fall enrollment** | **31,502** | **4,904** | **23,051** | **17,866** | |
| University Extension enrollment[1] | 61,672 | | 7,418 | 18,626 | |
| DEGREES CONFERRED[2] | | | | | |
| Bachelor | 6,148 | | 4,871 | 3,762 | |
| Advanced | 1,889 | 829 | 914 | 431 | |
| Cumulative | 179,246 | 51,779 | 218,536 | 105,705 | |
| FACULTY AND STAFF[3] *(full-time equivalents)* | 20,945 | 19,901 | 6,268 | 4,533 | 2,643 |
| LIBRARY COLLECTIONS[4] *(volumes)* | 4,569,666 | 1,129,336 | 3,123,554 | 2,365,077 | |
| CAMPUS LAND AREA *(in acres)* | 2,141 | 202 | 1,127 | 6,088 | 27 |
| **CAMPUS FINANCIAL FACTS**[5] *(in thousands of dollars)* | | | | | |
| OPERATING EXPENSES BY FUNCTION | | | | | |
| Instruction | $ 760,682 | $ 317,909 | $ 259,754 | $ 153,534 | $ 93,925 |
| Research | 803,719 | 821,049 | 166,080 | 113,889 | 111,028 |
| Public service | 18,540 | 96,038 | 9,328 | 15,109 | 132,260 |
| Academic support | 340,087 | 231,786 | 72,621 | 34,594 | 120,435 |
| Student services | 115,551 | 21,695 | 84,159 | 69,824 | 22,002 |
| Institutional support | 158,620 | 177,273 | 58,370 | 51,231 | 1,025,662 |
| Operation and maintenance of plant | 67,239 | 79,695 | 42,249 | 35,758 | (4,303) |
| Student financial aid | 74,582 | 15,616 | 78,300 | 37,631 | 813 |
| Medical centers | 1,203,979 | 2,504,497 | | | (112,842) |
| Auxiliary enterprises | 133,676 | 25,982 | 93,625 | 97,513 | 17,165 |
| Depreciation and amortization | 238,922 | 258,425 | 73,423 | 55,106 | 11,939 |
| Impairment of capital assets | 3,119 | 558 | | | |
| Other[6] | 3,158 | 4,123 | 7,459 | 267 | 770 |
| **Total** | **$3,921,874** | **$4,554,646** | **$ 945,368** | **$ 664,456** | **$1,418,854** |
| GRANTS AND CONTRACTS REVENUE | | | | | |
| Federal government | $ 649,741 | $ 643,682 | $ 119,052 | $ 97,636 | $ 22,222 |
| State government | 40,394 | 65,331 | 7,230 | 4,583 | 26,458 |
| Local government | 13,981 | 166,052 | 818 | 153 | 4,465 |
| Private | 245,364 | 299,561 | 47,096 | 24,758 | 10,837 |
| **Total** | **$ 949,480** | **$1,174,626** | **$ 174,196** | **$ 127,130** | **$ 63,982** |
| UNIVERSITY ENDOWMENTS AND GIFTS | | | | | |
| Nonspendable endowments and gifts | $ 39,119 | $ 101,647 | $ 28,215 | $ 8,109 | $ 74,922 |
| Restricted endowments and gifts | 230,266 | 1,070,079 | 157,640 | 88,713 | 382,674 |
| Annual income distribution | 8,072 | 37,981 | 4,066 | 2,677 | 34,463 |
| CAMPUS FOUNDATIONS' ENDOWMENTS AND GIFTS | | | | | |
| Nonspendable endowments and gifts | $ 359,765 | $ 520,069 | $ 91,641 | $ 36,240 | |
| Restricted endowments and gifts | 360,118 | 906,130 | 75,991 | 51,926 | |
| CAPITAL ASSETS | | | | | |
| Capital assets, at net book value | $3,996,591 | $4,312,502 | $1,319,707 | $1,062,437 | $ 389,090 |
| Capital expenditures | 492,751 | 586,672 | 118,939 | 92,352 | 83,083 |

*[1] For academic year 2014-15.*
*[2] As of academic year 2013-14.*
*[3] As of October 2014.*
*[4] As of June 30, 2014.*
*[5] Excludes DOE laboratories.*
*[6] Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.*
*[7] Includes expenses for systemwide education and research programs, systemwide support services and administration. Full-time equivalents counts, as of fall 2014, includes employees at all campuses involved in systemwide activities, including Agriculture and Natural Resources.*

# Management's Discussion and Analysis *(Unaudited)*

The objective of Management's Discussion and Analysis is to help readers of the University of California's financial statements better understand the financial position and operating activities for the year ended June 30, 2015, with selected comparative information for the years ended June 30, 2014 and 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2013, 2014, 2015 etc.) in this discussion refer to the fiscal years ended June 30.

The University of California's financial report communicates financial information for the University of California (the University), its discretely presented component units (component units), the University of California Retirement System (UCRS) and the University of California Retiree Health Benefit Trust (UCRHBT) through five primary financial statements and notes to the financial statements. Three of the primary statements, the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows, present the financial position, changes in financial position and cash flows for the University and its discretely presented component units. The financial statements for the campus foundations and the Children's Hospital and Research Center Oakland are presented discretely from the University. Two of the primary statements, the statements of plans' and trust's fiduciary net position and the statements of changes in plans' and trust's fiduciary net position, present the financial position and operating activities for UCRS and UCRHBT. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

## THE UNIVERSITY OF CALIFORNIA

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research, health care and public service. The University has annual resources of nearly $28.7 billion and encompasses ten campuses, five medical schools and medical centers, four law schools and a statewide Division of Agriculture and Natural Resources. The University is also involved in the operation and management of three national laboratories for the U.S. Department of Energy (DOE).

*Campuses.* The ten campuses are located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. All of the campuses, except San Francisco, offer undergraduate, graduate and professional education; the San Francisco campus is devoted exclusively to graduate and professional education in health sciences.

*Health sciences.* The University operates one of the nation's largest health science and medical training programs. The instructional program is conducted in 16 health professional schools on six campuses. Our health programs include five medical centers, two dental schools, three nursing schools, two public health schools and two pharmacy schools, in addition to a school of optometry and a school of veterinary medicine. The University's medical schools play a leading role in the development of health services and advancement of medical science and research.

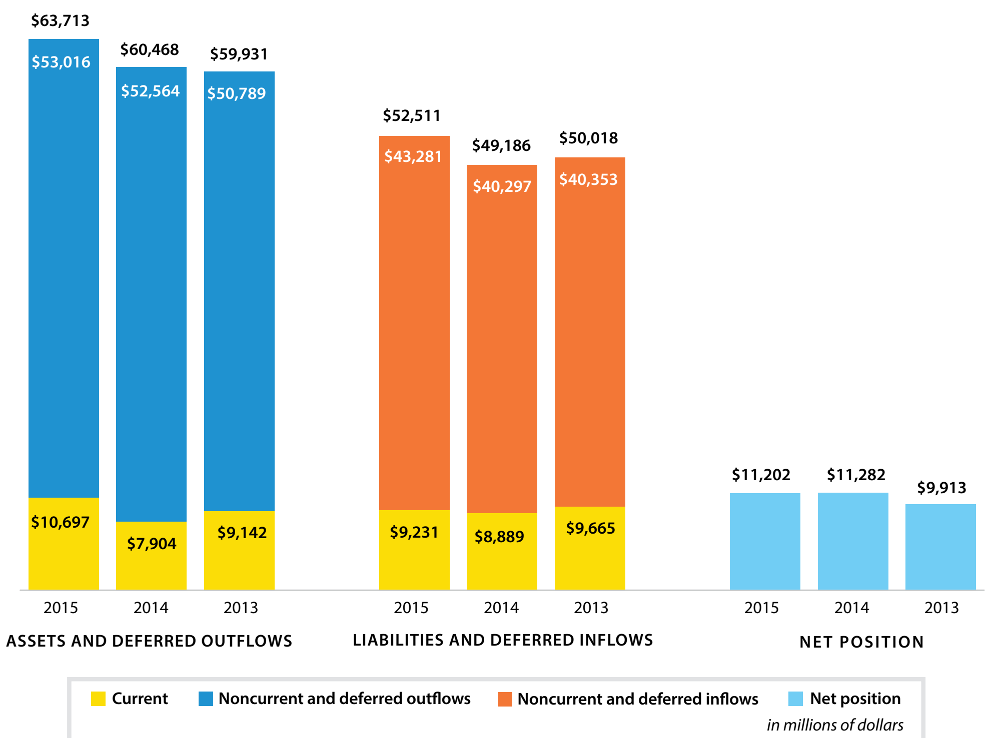
*Law schools.* The University has law schools at Berkeley, Davis, Irvine and Los Angeles. Also, the Hastings College of the Law in San Francisco is affiliated with the University, although not included in the financial reporting entity.

*Agriculture and Natural Resources.* The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves a large and diverse agricultural community. The division conducts studies on the Berkeley, Davis and Riverside campuses, at nine research and extension centers and on private land in cooperation with California producers. In addition, research and educational programs are conducted in each of the state's 58 counties.

*University Extension.* The foremost continuing education program of its kind in size, scope and quality of instruction, University Extension offers almost 20,000 self-supporting courses statewide and in several foreign countries.

*National laboratories.* Under contract with the DOE, the University operates and manages the Ernest Orlando Lawrence Berkeley National Laboratory (LBNL) in California. The University is also a member in two separate joint ventures, Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS) that operate and manage the Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE. The laboratories conduct broad and diverse basic and applied research in nuclear science, energy production, national defense and environmental and health areas.

## THE UNIVERSITY'S FINANCIAL POSITION



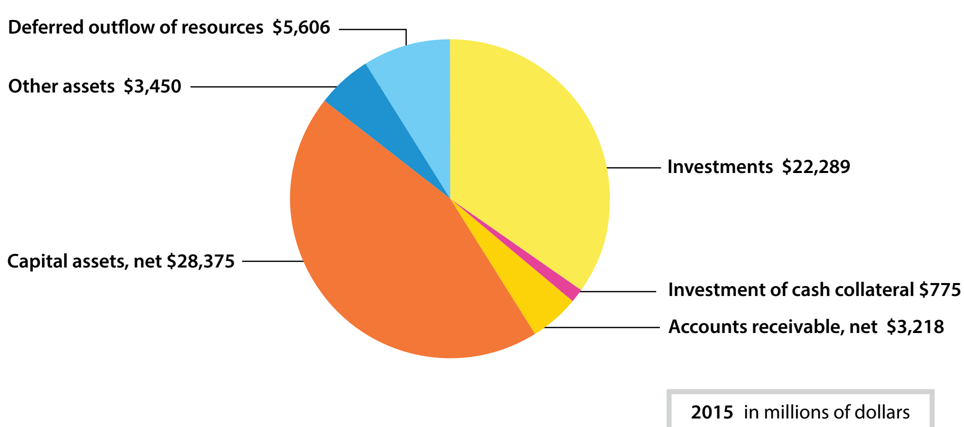

The statement of net position presents the financial position of the University at the end of each year. It displays all of the University's assets, deferred outflows, liabilities and deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position.

The major components of the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2015, 2014 and 2013 are as follows:

*(in millions of dollars)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Investments | $22,289 | $21,541 | $18,942 |
| Investment of cash collateral | 775 | 1,218 | 1,403 |
| Accounts receivable, net | 3,218 | 3,001 | 3,744 |
| Capital assets, net | 28,375 | 27,362 | 26,180 |
| Other assets | 3,450 | 3,646 | 4,895 |
| **Total assets** | **58,107** | **56,768** | **55,164** |
| **DEFERRED OUTFLOWS OF RESOURCES** | 5,606 | 3,700 | 4,767 |
| **LIABILITIES** | | | |
| Debt, including commercial paper | 19,021 | 18,031 | 17,236 |
| Securities lending collateral | 775 | 1,218 | 1,403 |
| Pension obligations | 10,620 | 7,714 | 12,338 |
| Obligations for retiree health benefits | 9,390 | 8,440 | 7,577 |
| Other liabilities | 7,399 | 6,705 | 7,246 |
| **Total liabilities** | **47,205** | **42,108** | **45,800** |
| **DEFERRED INFLOWS OF RESOURCES** | 5,306 | 7,078 | 4,218 |
| **NET POSITION** | | | |
| Net investment in capital assets | 11,926 | 11,884 | 11,856 |
| Restricted: | | | |
| Nonexpendable | 1,087 | 1,057 | 1,027 |
| Expendable | 7,173 | 6,944 | 5,836 |
| Unrestricted | (8,984) | (8,603) | (8,806) |
| **Total net position** | **$11,202** | **$11,282** | **$ 9,913** |

## *The University's Assets and Deferred Outflows*




The University's total assets and deferred outflows of resources have grown to $63.7 billion in 2015, compared to $60.5 billion in 2014 and $59.9 billion in 2013. Capital assets have increased due to continued investments in facilities and investments increased due to financial market returns. Deferred inflows and outflows fluctuate primarily as a result of changes in the University's pension obligations.

## *Investments*

Investments held by the University are principally carried in three investment pools, the Short Term Investment Pool (STIP), the Total Return Investment Pool (TRIP) and the General Endowment Pool (GEP). Cash for operations and bond proceeds for construction expenditures are invested in STIP. The University uses STIP to meet operational liquidity needs. TRIP provides the opportunity to maximize the return on long-term capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP. As a result of continued low interest rates, the University increased its use of TRIP to enhance investment returns, while still maintaining sufficient funds in STIP to meet operational liquidity needs. The GEP is a balanced portfolio and the primary investment vehicle for individual endowments and funds functioning as endowments.

The Regents of the University of California (The Regents) utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. GEP had positive returns of 7.2 percent, 19.0 percent and 12.0 percent in 2015, 2014 and 2013, respectively. TRIP had positive returns of 2.6 percent, 14.7 percent and 8.3 percent in 2015, 2014 and 2013, respectively. STIP had positive returns of 1.4 percent, 1.6 percent and 2.1 percent in 2015, 2014 and 2013, respectively. As of June 30, 2015, an increase of $2.9 billion of short-term investments from prior year were held to facilitate the execution of asset allocation changes in the investment portfolios.

### *Investment of cash collateral*

The University participates in a securities lending program incorporating securities owned by both the University and UCRS as a means to augment income. Cash collateral fluctuates in response to changes in demand from borrowers and the availability of securities based upon the University's asset allocation mix.

### *Accounts receivable, net*

Receivables fluctuate based on the timing of collections and investment sales activity. Private contracts and grants receivables increased by $53.3 million, medical professional fees increased by $28.0 million and other receivables for settlements increased by $30.0 million in 2015 as compared to 2014 due to the timing of investments. Receivables from investment sales decreased by $742.6 million in 2014 as compared to 2013.

### *Capital assets, net*

Capital spending continues at a brisk pace in order to provide the facilities necessary to support the University's teaching, research and public service mission and for patient care. Capital spending includes constructing and renovating academic buildings, research laboratories, libraries, student services, housing facilities, medical centers and clinical facilities, parking structures and infrastructure projects at all ten campuses and five medical centers. The largest projects are the medical centers in San Francisco and San Diego. Total additions of capital assets were $2.8 billion in 2015 as compared to $2.9 billion in 2014 and $2.6 billion in 2013.

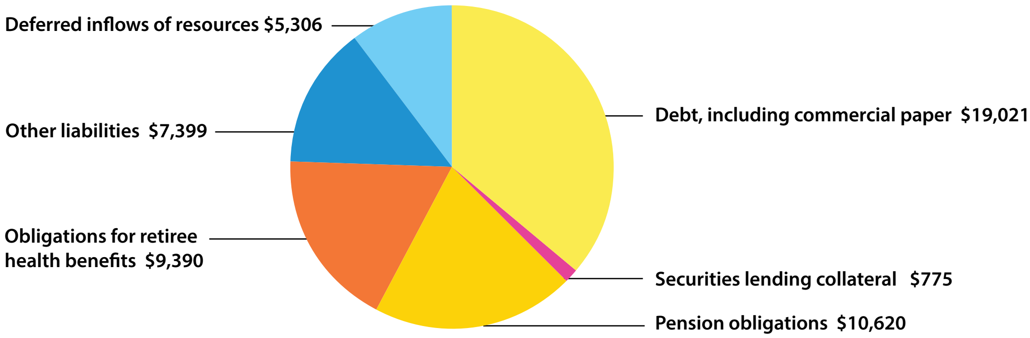
### *Other assets*

Other assets include cash, investments held by trustees, pledge receivables, note and mortgage receivables, inventories and a receivable from the DOE. Investments held by trustees decreased by $626.2 million in 2014 related to the refinancing of debt issued by the state of California. The noncurrent receivable from the DOE, which fluctuates with the pension obligations due to the DOE's continuing responsibility to contribute for retired and terminated vested members of LLNS and LANL, decreased by $178.8 million in 2015 as compared to 2014 and decreased by $615.8 million in 2014 as compared to 2013.

### *Deferred outflows of resources*

Changes in fair values of the University's interest rate swaps that are determined to be hedging derivatives, losses on debt refundings and certain changes in the net pension liability are reported as deferred outflows of resources. The increase of $1.9 billion in deferred outflows of resources in 2015 is primarily related to changes in the pension obligations as a result of actual earnings less than expected and changes in assumptions for mortality and expected investment returns. The decrease of $1.1 billion in deferred outflows of resources in 2014 is primarily related to the recognition of changes in the net pension liability.

## *The University's Liabilities and Deferred Inflows*




The University's liabilities and deferred inflows of resources increased to $52.5 billion in 2015 as compared $49.2 billion in 2014 and $50.0 billion in 2013. The increase in 2015 was primarily related to issuance of additional debt to finance capital projects and the increases in the liabilities for pension obligations and retiree health benefits offset by a reduction in deferred inflows of resources. The decrease in 2014 was primarily related to the reduction in pension obligations offset by issuance of debt to finance capital projects and the increase in the liability for retiree health benefits.

### *Debt, including commercial paper*

Capital assets are financed from a variety of sources, including University equity contributions, federal and state support, revenue bonds, bank loans, and leases or structures that involve separate legal entities. Commercial paper and bank loans provide interim financing for capital assets during the construction period.

Outstanding debt increased by $990.0 million and $795.0 million in 2015 and 2014, respectively. A summary of the activity follows:

*(in millions of dollars)*

| | 2015 | 2014 |
|---|---|---|
| **ADDITIONS TO OUTSTANDING DEBT** | | |
| General Revenue Bonds | $1,679 | $3,429 |
| Medical Center Pooled Revenue Bonds | | 650 |
| Limited Project Revenue Bonds | 1,671 | |
| Capital leases | 43 | 36 |
| Other borrowings | | 14 |
| Commercial paper | 91 | |
| Bond premium, net | 242 | 186 |
| **Additions to outstanding debt** | **3,726** | **4,315** |
| **REDUCTIONS TO OUTSTANDING DEBT** | | |
| Refinancing and prepayments | (2,325) | (2,433) |
| Scheduled principal payments | (336) | (687) |
| Payments on other borrowings | (26) | (31) |
| Commercial paper | | (326) |
| Other[1] | (49) | (43) |
| **Reductions to outstanding debt** | **(2,736)** | **(3,520)** |
| **Net increase in outstanding debt** | **$ 990** | **$ 795** |

[1]*Amortization of bond premium.*

The University's debt, which is used to primarily finance capital assets, includes $1.1 billion, $993.7 million and $1.3 billion of commercial paper outstanding at the end of 2015, 2014 and 2013, respectively. Total debt outstanding was $19.0 billion at the end of 2015 compared to $18.0 billion and $17.2 billion at the end of 2014 and 2013, respectively.

In 2015, $3.4 billion of debt was issued. The University issued General Revenue Bonds totaling $1.7 billion and Limited Project Revenue Bonds totaling $1.7 billion to primarily finance and refinance certain facilities and projects of the University. Reductions to outstanding debt in 2015 were $2.7 billion, including $2.3 billion for one-time principal payments for the refinancing or refunding of previously outstanding debt. The refinancing and refunding of previously outstanding debt resulted in an economic gain of $276.0 million. The General Revenue Bonds issued included $500.0 million of bonds maturing in 2115 to finance capital projects of the University or for such other purposes as authorized by The Regents.

In August 2013, the University issued Medical Center Pooled Revenue Bonds totaling $650.0 million to finance and refinance certain facilities and projects. In October 2013, the University issued General Revenue Bonds of $2.5 billion to restructure Lease Revenue Bonds issued by the State Public Works Board of the state of California, reported as lease-purchase agreements by the University. General Revenues, as defined in the Indenture, were amended to include certain state appropriations as to secure payment of the General Revenue Bonds.

In April 2014, General Revenue Bonds totaling $970.4 million were issued to finance and refinance certain facilities and projects of the University. Reductions to debt in 2014 were $3.5 billion. In April 2014, the University remarketed General Revenue Bonds totaling $500 million with a scheduled mandatory tender for purchase on July 1, 2017.

The University's General Revenue Bond ratings are currently affirmed at Aa2, AA and AA by Moody's Investors Service, Standard & Poor's and Fitch, respectively, all with stable outlooks. The University's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds are currently affirmed at Aa3, AA- and AA- by Moody's Investors Service, Standard & Poor's and Fitch, respectively, all with stable outlooks.

Commercial paper borrowings increased by $91.3 million in 2015 as compared to 2014, and decreased by $326.4 million in 2014 compared to 2013. Commercial paper is primarily used as interim financing for construction projects and equipment financing. Commercial paper fluctuates based upon the timing of refinancing construction projects with the issuance of long-term Revenue Bonds. The University has various revolving credit agreements totaling $1.2 billion with major financial institutions for the purpose of providing additional liquidity for bonds, commercial paper and for other liquidity needs.

### *Securities lending collateral*

Under the securities lending program, the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of the securities lent. The amount of the securities lending collateral liability fluctuates directly with securities lending opportunities and the investment of cash collateral.

### *Pension obligations and retiree health benefits*

The University has a financial responsibility for pension benefits associated with its defined benefit plans and for retiree health benefits. The University's pension obligation was $10.6 billion, $7.7 billion and $12.3 billion in 2015, 2014 and 2013, respectively. The change in net pension liability for 2015 was primarily driven by changes in assumptions from the experience study and lower than expected returns on the UCRP investment portfolio. The change in net pension liability for 2014 was primarily driven by better than expected investment performance of the UCRP investment portfolio. UCRP's total investment rate of return was 4.5 percent in 2015, 17.4 percent in 2014 and 11.7 percent in 2013. The discount rate used to estimate the net pension liability was 7.25 percent in 2015 and 7.5 percent in both 2014 and 2013.

LBNL participates in the University's defined benefit pension plan, although the DOE has an ongoing financial responsibility to reimburse the University for LBNL's share of the obligation to UCRP. In addition, under certain circumstances the University makes contributions to UCRP for LANL and LLNL retirees and, based upon contractual arrangements with the DOE, is reimbursed by the DOE. The University recorded receivables from the DOE of $1.0 billion, $1.2 billion and $1.8 billion for 2015, 2014 and 2013, respectively, representing the DOE's share of the net pension liability.

The University's obligation for retiree health benefits is based upon an actuarial determination of the annual retiree health benefit expense. The University funds the retiree health expense through UCRHBT based upon a projection of benefits on a pay-as-you-go basis. The increases of $950.0 million and $863.0 million in 2015 and 2014, respectively, in the obligation for retiree health benefits is due to the impact of amortizing the University's unfunded obligation. The unfunded liability for the campuses and medical centers as of the July 1, 2014 actuarial valuation was $14.0 billion.

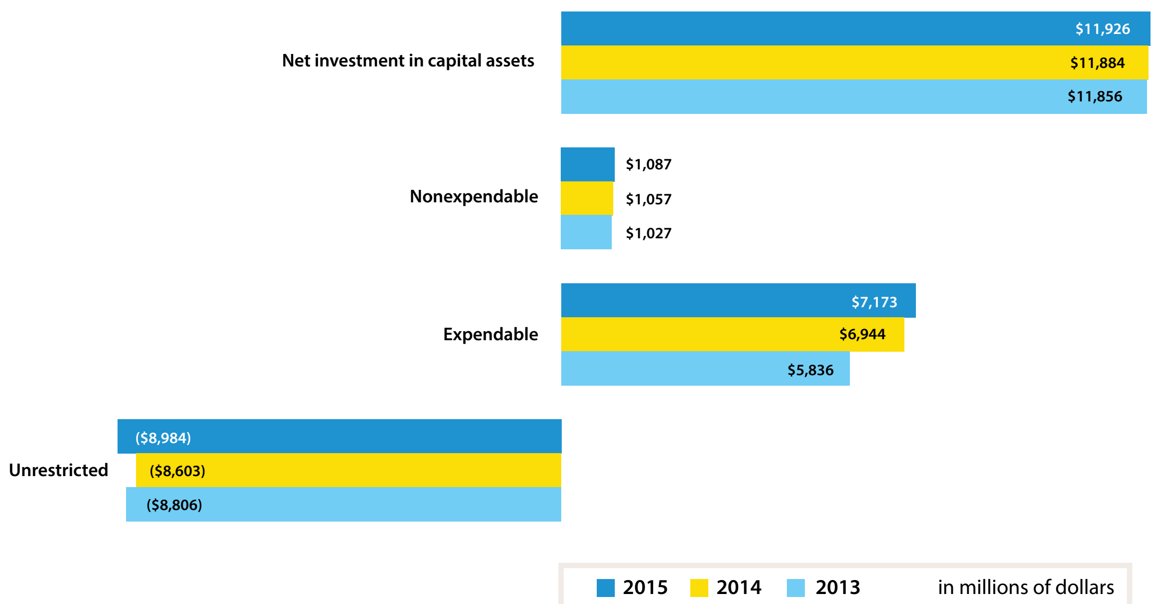
### *Other liabilities*

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

### *Deferred inflows of resources*

Deferred inflows of resources are related to the University's service concession arrangements, gains on debt refundings and certain changes in the net pension liability. Deferred inflows of resources decreased in 2015 by $1.8 billion due to changes in pension obligations as a result of changes in assumptions for inflation offset by recognition of investment gains from previous years. Deferred inflows of resources increased in 2014 by $2.9 billion due to higher than expected earnings on pension investments.

## *The University's Net Position*




Net position represents the residual interest in the University's assets and deferred outflows after all liabilities and deferred inflows are deducted. The University's net position was $11.2 billion in 2015 compared to $11.3 billion in 2014 and $9.9 billion in 2013. Net position is reported in the following categories: net investment in capital assets; restricted, nonexpendable; restricted, expendable; and unrestricted.

### *Net investment in capital assets*

The portion of net position invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, was $11.9 billion for the years ended June 30, 2015, 2014 and 2013. The University continues to invest in its physical facilities to support the growth in the University.

### *Restricted, nonexpendable*

Restricted, nonexpendable net position includes the corpus of the University's permanent endowments and the estimated fair value of certain planned giving arrangements. In 2015 and 2014, the increase in restricted nonexpendable net position was principally due to the receipt of new gifts.

### *Restricted, expendable*

Restricted, expendable net position is subject to externally imposed restrictions governing their use. Net position may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations or capital projects; trustee held investments; or other third-party receipts. The increases or decreases in restricted, expendable funds are principally due to unrealized appreciation or depreciation respectively in the fair value of investments related to restricted gifts and funds functioning as endowments.

### *Unrestricted*

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Unrestricted net position is negative due primarily to obligations for pension and retiree health benefits exceeding University reserves. Although unrestricted net position is not subject to externally imposed restrictions, substantially all of the University's reserves are allocated for academic and research initiatives or programs and for capital and other purposes. As of June 30, 2015 and 2014, unrestricted net position is in a deficit position. The increase in the deficit in 2015 is due to increases in the University's pension and retiree health benefit obligations. The decrease in the deficit in 2014 is due to changes in the net pension obligation related to strong financial market performance.

## The University's Results of Operations

The statement of revenues, expenses and changes in net position is a presentation of the University's operating results. It indicates whether the financial condition has improved or deteriorated. In accordance with the Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income. A summarized comparison of the operating results for 2015, 2014 and 2013, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

*(in millions of dollars)*

| | 2015 | | | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | OPERATING | NONOPERATING | TOTAL | OPERATING | NONOPERATING | TOTAL | OPERATING | NONOPERATING | TOTAL |
| **REVENUES** | | | | | | | | | |
| Student tuition and fees, net | $ 3,784 | | $ 3,784 | $ 3,586 | | $ 3,586 | $ 3,403 | | $ 3,403 |
| State educational appropriations | | $ 2,792 | 2,792 | | $ 2,638 | 2,638 | | $ 2,154 | 2,154 |
| Federal Pell Grants | | 376 | 376 | | 316 | 316 | | 346 | 346 |
| Grants and contracts, net | 5,153 | | 5,153 | 5,068 | | 5,068 | 5,079 | | 5,079 |
| Medical centers, educational activities and auxiliary enterprises, net | 13,107 | 22 | 13,129 | 11,751 | 2 | 11,753 | 10,890 | 3 | 10,893 |
| Department of Energy laboratories | 1,235 | | 1,235 | 1,251 | | 1,251 | 1,032 | | 1,032 |
| Private gifts, net | | 957 | 957 | | 882 | 882 | | 802 | 802 |
| Investment income, net | | 309 | 309 | | 313 | 313 | | 366 | 366 |
| Other revenues | 891 | 39 | 930 | 712 | 92 | 804 | 696 | 293 | 989 |
| **Revenues supporting core activities** | **24,170** | **4,495** | **28,665** | **22,368** | **4,243** | **26,611** | **21,100** | **3,964** | **25,064** |
| **EXPENSES** | | | | | | | | | |
| Salaries and benefits | 18,254 | | 18,254 | 16,976 | | 16,976 | 17,532 | | 17,532 |
| Scholarships and fellowships | 547 | | 547 | 577 | | 577 | 592 | | 592 |
| Utilities | 273 | | 273 | 290 | | 290 | 281 | | 281 |
| Supplies and materials | 2,817 | | 2,817 | 2,543 | | 2,543 | 2,465 | | 2,465 |
| Depreciation and amortization | 1,661 | | 1,661 | 1,710 | | 1,710 | 1,555 | | 1,555 |
| Department of Energy laboratories | 1,228 | | 1,228 | 1,244 | | 1,244 | 1,026 | | 1,026 |
| Interest expense | | 662 | 662 | | 616 | 616 | | 666 | 666 |
| Other expenses | 4,022 | 16 | 4,038 | 3,609 | 2 | 3,611 | 3,394 | 15 | 3,409 |
| **Expenses associated with core activities** | **28,802** | **678** | **29,480** | **26,949** | **618** | **27,567** | **26,845** | **681** | **27,526** |
| **Income (loss) from core activities** | **$ (4,632)** | **$3,817** | **$ (815)** | **$(4,581)** | **$ 3,625** | **$ (956)** | **$ (5,745)** | **$3,283** | **$(2,462)** |
| **OTHER NONOPERATING ACTIVITIES** | | | | | | | | | |
| Net appreciation in fair value of investments | | | 544 | | | 1,828 | | | 727 |
| **Income (loss) before other changes in net position** | | | (271) | | | 872 | | | (1,735) |
| **OTHER CHANGES IN NET POSITION** | | | | | | | | | |
| State capital appropriations | | | 21 | | | 45 | | | 120 |
| Capital gifts and grants, net | | | 143 | | | 432 | | | 257 |
| Permanent endowments | | | 27 | | | 20 | | | 23 |
| **Increase (decrease) in net position** | | | **(80)** | | | **1,369** | | | **(1,335)** |
| **NET POSITION** | | | | | | | | | |
| Beginning of year | | | 11,282 | | | 9,913 | | | 11,247 |
| **End of year** | | | **$11,202** | | | **$11,282** | | | **$ 9,912** |

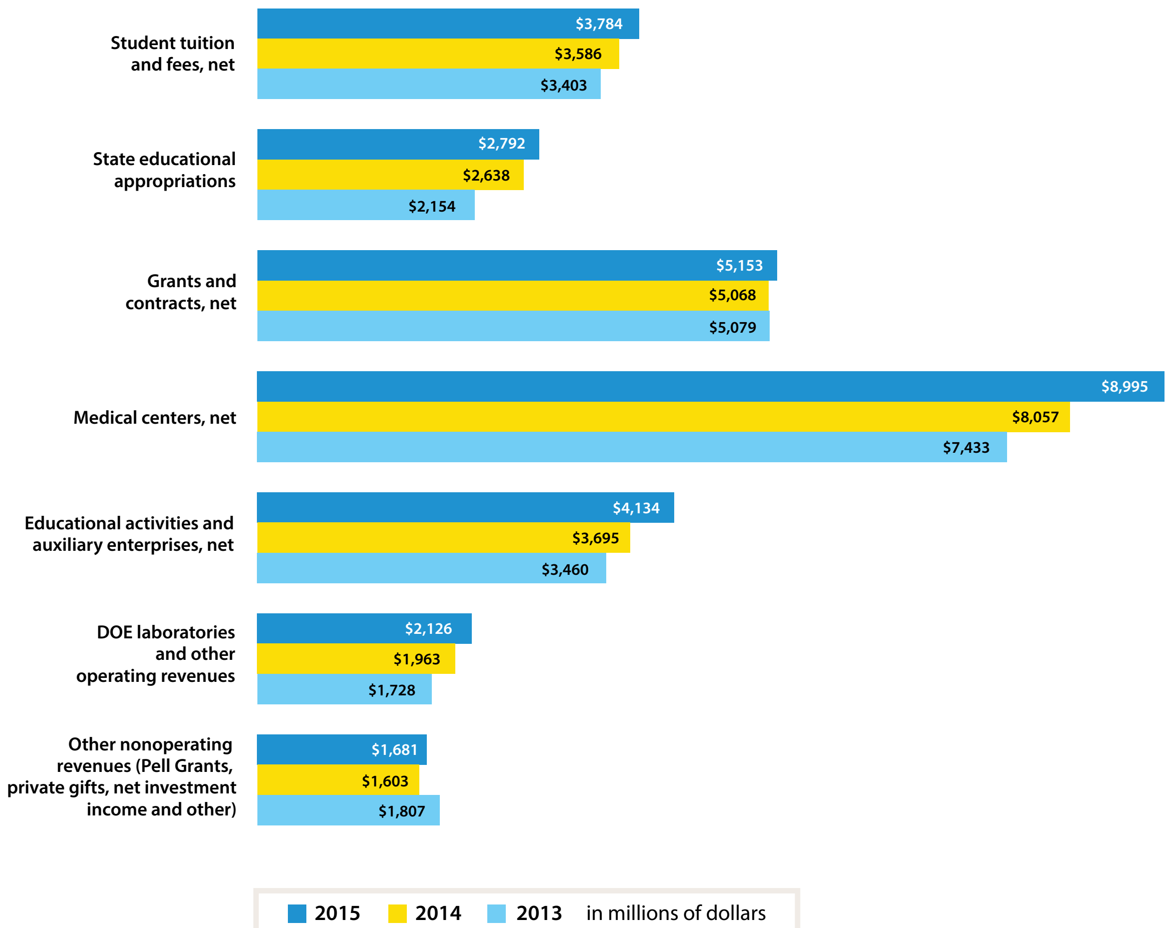
### *Revenues supporting core activities*

Revenues to support the University's core activities, including those classified as nonoperating revenues, were $28.7 billion, $26.6 billion and $25.1 billion in 2015, 2014 and 2013, respectively. These diversified sources of revenue increased by $2.1 billion in 2015 and increased by $1.5 billion in 2014.

The state of California's educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country.

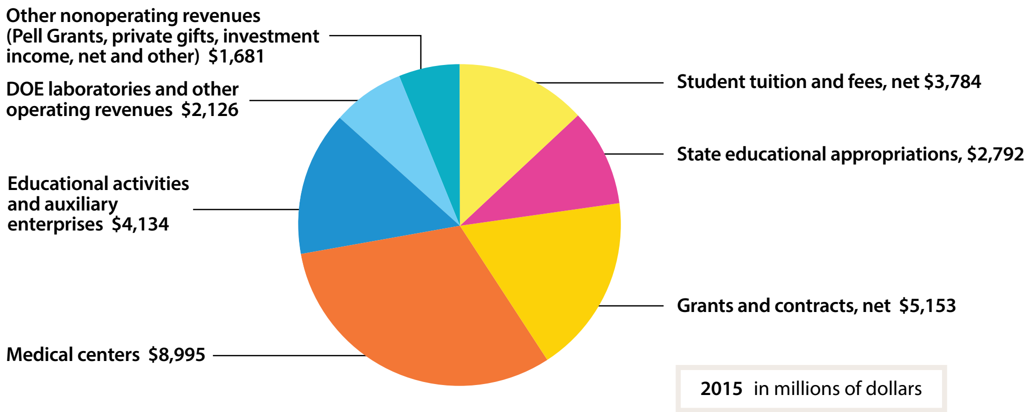
Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from medical centers, educational activities and auxiliary enterprises such as student housing, food service operations and parking.

Revenues in the various categories have increased and decreased as follows:




A major financial strength of the University includes a diverse source of revenues, including those from student fees, federally sponsored grants and contracts, medical centers, the state of California, private support and self-supporting enterprises. The variety of fund sources has become increasingly important over the past several years given the effects of the state's financial crisis that required reductions in both instructional and non-instructional programs.

Categories of both operating and nonoperating revenue that supported the University's core activities in 2015 are as follows:




## *Student tuition and fees, net*

Net student tuition and fees were $3.8 billion, $3.6 billion and $3.4 billion in 2015, 2014 and 2013, respectively. Student tuition and fees, net of scholarship allowances, increased by $198.2 million and $182.9 million in 2015 and 2014, respectively. Scholarship allowances were $1.2 billion, $1.1 billion and $1.0 billion in 2015, 2014 and 2013, respectively. Scholarship allowances are reported as an offset to revenue, not as an operating expense.

In 2015, enrollment grew by 3.3 percent. Mandatory tuition and fees for resident undergraduates were not changed in 2015 and 2014. Certain nonresident undergraduates and resident and nonresident graduate students experienced increases in mandatory tuition and fees. Professional degree supplemental tuition varies by discipline; no increases were approved for 2015 and limited increases were approved for 2014.

## *State educational appropriations*

Educational appropriations from the state of California were $2.8 billion, $2.6 billion and $2.2 billion in 2015, 2014 and 2013, respectively. State educational appropriations increased in 2015 and 2014 by $153.8 million and $483.4 million, respectively, as a result of tax initiatives approved by the voters of California in November 2012. In connection with the passage of these tax initiatives, the University did not raise resident tuition from 2013 to 2015. Additionally, the state of California agreed to increase state educational appropriations in exchange for the reduction in state financing appropriations, which decreased when the Lease Revenue Bonds issued by the State Public Works Board of the state of California were refinanced in October 2013.

## *Grants and contracts, net*

Revenue from federal, state, private and local government grants and contracts — including an overall facilities and administration cost recovery of $993.5 million, $978.4 million and $990.5 million in 2015, 2014 and 2013, respectively — were $5.2 billion, $5.1 billion and $5.1 billion in 2015, 2014 and 2013, respectively.

In 2015, federal grants and contracts revenue decreased $0.5 million, or 0.1 percent as compared to 2014. In 2014, federal grants and contracts revenue decreased $68.5 million, or 2.1 percent as compared to 2013. Federal grants and contracts include federal facilities and administrative cost recovery of $720.3 million, $709.6 million and $731.7 million in 2015, 2014 and 2013, respectively. Expiring federal grants and contracts funded from federal economic stimulus funds made available by the American Recovery and Reinvestment Act (ARRA) and federal budget cuts have slowed the University's growth in federal grants and contracts. Grant and contract revenue is from a variety of federal agencies as indicated below:

*(in millions of dollars)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Department of Health and Human Services | $1,816 | $1,902 | $1,967 |
| National Science Foundation | 498 | 469 | 478 |
| Department of Education | 70 | 124 | 75 |
| Department of Defense | 259 | 256 | 271 |
| National Aeronautics and Space Administration | 137 | 102 | 94 |
| Department of Energy (excluding national laboratories) | 100 | 109 | 111 |
| Other federal agencies | 296 | 215 | 249 |
| **Federal grants and contracts net revenue** | **$3,176** | **$3,177** | **$3,245** |

### *Medical centers, educational activities and auxiliary enterprises, net*

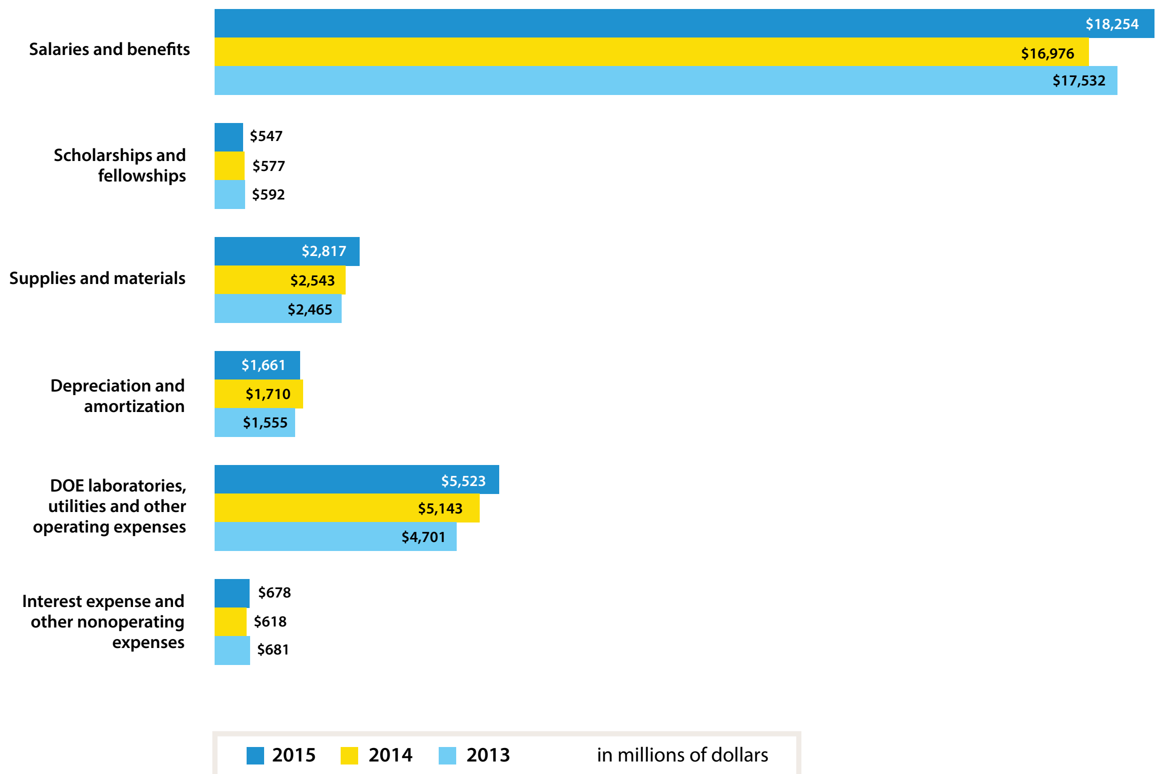
Medical center revenues, including state hospital fee grants and net of allowances, increased $937.5 million, or 11.6 percent, in 2015 and increased $624.1 million or 8.4 percent, in 2014. Revenues increased in 2015 and 2014 due to higher patient volumes, a continuing increase in the complexity of cases, slight improvements in payor mix and higher reimbursement rates. In response to health care reform and increasing employee costs, the medical centers continue to invest in expanding services and achieving efficiencies to maintain operating margins.

Revenue from education activities, primarily medical professional fees, net of allowances, grew by $361.7 million, or 15.2 percent, in 2015 and $189.2 million, or 8.4 percent, in 2014. The growth is generally associated with an expanded patient base and higher rates from third-party payors.

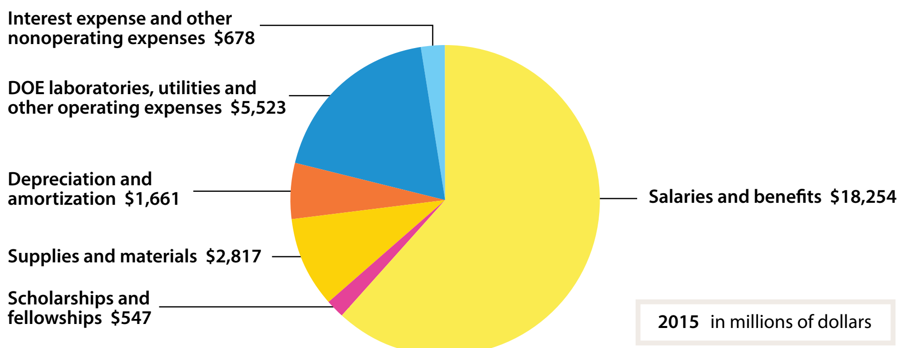
## *Expenses associated with core activities*

Expenses associated with the University's core activities, including those classified as nonoperating expenses, were $29.5 billion, $27.6 billion and $27.5 billion in 2015, 2014 and 2013, respectively. Expenses increased in 2015 by $1.9 billion, primarily due to growth in the University's operations, principally at the medical centers. Expenses increased in 2014 by $41.0 million, primarily due to an increase in other operating expenses and depreciation, offset by a decrease in salaries and benefits.

Expenses in the various categories are as follows:




Categories of both operating and nonoperating expenses related to the University's core activities in 2015 are as follows:




## *Salaries and benefits*

Approximately 62.0 percent of the University's expenses were related to salaries and benefits. There were 146,000 full-time equivalent (FTE) employees in the University in 2015, excluding employees who were associated with LBNL whose salaries and benefits were included as laboratory expenses as compared to 142,000 FTEs in 2014.

Salaries and benefits increased 7.5 percent in 2015 due to growth in the University's operations. In 2015, salaries increased 6.9 percent, 2.6 percent due to an increase in the number of FTEs and 4.2 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post-retirement health care benefits, increased by 6.8 percent in 2015, due to higher health insurance costs. Pension expense increased by 17.0 percent due to lower than expected investment returns and assumption changes.

Salaries and benefits decreased 3.2 percent in 2014 due to lower pension expense. In 2014, salaries increased 5.4 percent, 1.6 percent due to an increase in the number of FTEs and 3.8 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post-retirement health care benefits, increased by 4.3 percent in 2014, due to higher health insurance costs. Pension expense is lower due to investment gains on plan assets in excess of expected returns.

### *Scholarships and fellowships*

The University places a high priority on student financial aid as part of its commitment to affordability. Scholarship allowances, representing financial aid and fee waivers awarded by the University, were $2.0 billion, $1.9 billion and $1.8 billion in 2015, 2014 and 2013, respectively. Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense were 547.1 million, 577.2 million and 591.6 million in 2015, 2014 and 2013, respectively. On a combined basis, as the University continues its commitment to provide financial support for needy students, financial aid in all forms increased by $95.8 million, or 5.1 percent in 2015 as compared to 2014.

### *Supplies and materials*

During 2015 and 2014, supplies and materials costs increased by $273.5 million, or 10.8 percent, and $78.2 million, or 3.2 percent, respectively. The largest increases occurred at the medical centers due to higher patient volumes. In recent years, there has been inflationary pressure on the costs for medical supplies and laboratory instruments and higher costs for general supplies necessary to support expanded research activity and increased medical patient volumes. The University continues to find opportunities to manage the costs of supplies and materials.

### *Other expenses*

Other expenses consist of a variety of expense categories, including travel, rent, insurance, legal settlements and repairs and maintenance, plus any gain or loss on disposals of capital assets and other nonoperating expenses.

### *Operating losses*

In accordance with the GASB's reporting standards, operating losses were $4.6 billion, $4.6 billion and $5.7 billion in 2015, 2014 and 2013, respectively. The operating losses in 2015, 2014 and 2013 were partially offset by $3.8 billion, $3.6 billion and $3.3 billion, respectively of net nonoperating revenue that clearly supports core operating activities of the University. Expenses associated with core activities in 2015, 2014 and 2013 exceeded revenue available to support core activities by $0.8 billion, $1.0 billion and $2.5 billion, respectively.

### *Other nonoperating activities*

The University's other nonoperating activities, consisting of net appreciation or depreciation in the fair value of investments, are noncash transactions and, therefore, are not available to support operating expenses. In 2015, the University recognized net appreciation in the fair value of investments of $543.7 million, as compared to $1.8 billion and $727.0 million during 2014 and 2013, respectively. The University's portfolio showed positive performance in all three years due to returns in both the equity and bond markets.

### *Other changes in net position*

Similar to other nonoperating activities discussed above, other changes in net position are also not available to support the University's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Only income earned from gifts of permanent endowments is available in future years to support the specified program. The University's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations, representing proceeds from bond measures approved by California voters decreased by $24.2 million and $74.7 million in 2015 and 2014, respectively. Capital gifts and grants decreased by $288.8 million in 2015 from 2014 and increased by $175.2 million in 2014 from 2013 due to large gifts received in 2014 for the construction of the San Francisco Medical Center at Mission Bay.

## THE UNIVERSITY OF CALIFORNIA DISCRETELY PRESENTED COMPONENT UNITS

Separate foundations at each individual campus provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern each of the foundations, they are affiliated with, and their assets are dedicated for, the benefit of the University of California.

The Regents are the sole corporate member of Children's Hospital and Research Center Oakland (CHRCO). CHRCO is considered a discretely presented component unit of the University.

### The Discretely Presented Component Units' Financial Position

The discretely presented component units' statement of net position presents their combined financial position at the end of the year. It displays all of the discretely presented component units' assets, deferred outflows, liabilities, deferred inflows and net position. The difference between assets, deferred outflows, liabilities and deferred inflows is net position, representing a measure of the current financial condition of the discretely presented component units.

The major components of the combined assets, liabilities and net position of the discretely presented component units at June 30, 2015, 2014 and 2013 are as follows:

*(in millions of dollars)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Investments | $7,159 | $6,704 | $6,005 |
| Investment of cash collateral | 37 | 51 | 66 |
| Accounts receivable, net | 201 | 103 | 155 |
| Pledges receivable, net | 826 | 865 | 718 |
| Capital assets, net | 268 | 284 | 242 |
| Other assets | 273 | 245 | 233 |
| **Total assets** | **8,764** | **8,252** | **7,419** |
| **DEFERRED OUTFLOW OF RESOURCES** | **46** | **5** | **4** |
| **LIABILITIES** | | | |
| Accounts payable and other current liabilities | 124 | 158 | 158 |
| Securities lending collateral | 37 | 51 | 66 |
| Obligation under life income agreements and funds held for others | 372 | 383 | 368 |
| Other noncurrent liabilities | 171 | 109 | 155 |
| **Total liabilities** | **704** | **701** | **747** |
| **DEFERRED INFLOWS OF RESOURCES** | **24** | **30** | **11** |
| **NET POSITION** | | | |
| Net investment in capital assets | 212 | 224 | 176 |
| Restricted: | | | |
| Nonexpendable | 3,447 | 3,180 | 2,854 |
| Expendable | 4,063 | 3,849 | 3,350 |
| Unrestricted | 360 | 273 | 285 |
| **Total net position** | **$8,082** | **$7,526** | **$6,665** |

Investments increased in 2015 and 2014 due to the positive performance of the financial markets. The Board of Trustees for each campus foundation is responsible for its specific investment policy, although asset allocation guidelines are recommended to campus foundations by the Committee on Investments of The Regents. The Boards of Trustees may determine that all or a portion of their investments will be managed by the University's Chief Investment Officer. The Chief Investment Officer managed $1.3 billion, $1.4 billion and $1.2 billion of the campus foundations' investments at the end of 2015, 2014 and 2013, respectively.

Restricted, nonexpendable net position includes the corpus of the campus foundations' permanent endowments and the estimated fair value of certain planned giving arrangements. Restricted, expendable net position is subject to externally imposed restrictions governing their use. Net position represents the residual interest in the assets and deferred outflows after all liabilities and deferred inflows are deducted. It is only available in accordance with the restrictions placed upon them and may include endowment income and investment gains, subject to each individual campus foundation's spending policy; support received from gifts; trustee held investments; or other third-party receipts. New gifts and net appreciation in the fair value of investments were the primary reasons for the changes in value in 2015 and 2014.

CHRCO operates a 190-bed inpatient acute care hospital, and outpatient facilities and clinics throughout the San Francisco Bay Area, as well as a pediatric research institute. CHRCO's assets consist primarily of patient receivables and capital assets. In 2015, CHRCO's assets increased due to strong operating results.

In 2014, capital assets increased due primarily to investments in an electronic medical record system. Liabilities include long-term debt, outstanding in 2013, which was refinanced in 2014 with $58.1 million of the University's commercial paper and pension liabilities for CHRCO's defined benefit retirement plan. CHRCO's net position increased $100.4 million and $12.3 million in 2015 and 2014, respectively.

## The Discretely Presented Component Units' Results of Operations

The discretely presented component units' combined statement of revenues, expenses and changes in net position is a presentation of their operating results for the year. It indicates whether their financial condition has improved or deteriorated during the year.

A summarized comparison of the operating results for 2015, 2014 and 2013 is as follows:

*(in millions of dollars)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Medical centers, net | $ 504 | $ 358 | $ 405 |
| Grants and contracts, net | 51 | 50 | 56 |
| Private gifts and other revenues | 787 | 814 | 737 |
| **Total operating revenues** | **1,342** | **1,222** | **1,198** |
| **OPERATING EXPENSES** | | | |
| Salaries and benefits | 311 | 291 | 272 |
| Supplies and materials | 60 | 42 | 38 |
| Depreciation and amortization | 37 | 30 | 22 |
| Grants to campuses and other expenses | 987 | 1,101 | 826 |
| **Total operating expenses** | **1,395** | **1,464** | **1,158** |
| **Operating income (loss)** | **(53)** | **(242)** | **40** |
| **NONOPERATING REVENUES (EXPENSES)** | | | |
| Investment income | 75 | 94 | 68 |
| Net appreciation in fair value of investments | 207 | 677 | 484 |
| Other nonoperating revenues | 9 | 17 | 11 |
| **Income before other changes in net position** | **238** | **546** | **603** |
| **OTHER CHANGES IN NET POSITION** | | | |
| Capital gifts and grants, net | 44 | 41 | 37 |
| Permanent endowments | 274 | 274 | 185 |
| **Increase in net position** | **556** | **861** | **825** |
| **NET POSITION** | | | |
| Beginning of year | 7,526 | 6,665 | 5,840 |
| **End of year** | **$8,082** | **$7,526** | **$ 6,665** |

Operating expenses generally consist of grants to University campuses, comprised of current-use gifts and endowment income and other expenses, including gift fees. Grants to campuses typically follow the pattern indicated by private gift revenue; however, the campuses' programmatic needs are also taken into consideration, subject to abiding by the restricted purposes of gifts to the endowment and the amounts available for grants in any particular year.

Grants to the campuses can only be made when the cash is received and, in addition, also include endowment investment income, classified as nonoperating income. Therefore, operating losses can occur when grants distributed to the campuses in any particular year exceed private gift revenue.

CHRCO's operating income for 2015 was $32.7 million as compared to an operating loss of $55.8 million in 2014. The operating results improved in 2015 as compared to 2014 due to the receipt of supplemental funds in 2015, which were not received in 2014.

CHRCO's operating loss for 2014 was $55.8 million as compared to operating income of $18.4 million in 2013. The operating loss is a result of declining revenues due to the expiration in 2013 of supplemental state health care reimbursement programs in addition to cost increases due to inflation. The operating loss is offset by gifts and investment returns.

## THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

UCRS is a valuable component of the comprehensive benefits package offered to employees of the University. UCRS consists of the University of California Retirement Plan (UCRP), a defined benefit plan for members; the University of California Retirement Savings Program (UCRSP) that includes four defined contribution plans (Defined Contribution Plan, Supplemental Defined Contribution Plan, 403(b) Plan and 457(b) Plan) to complement the defined benefit plan, with several investment portfolio options for participants' elective and non-elective contributions; and the California Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS-VERIP) for certain University employees that were members of PERS who elected early retirement.

### UCRS' Financial Position and Result of Operations

The statement of plans' fiduciary net position presents the financial position of UCRS at the end of the fiscal year. It displays all of the retirement system's assets, liabilities and net position. The difference between assets and liabilities is the net position held in trust for pension benefits. These represent amounts available to provide pension benefits to members of UCRP and participants in the defined contribution plans and PERS-VERIP. At June 30, 2015, UCRS' assets were $82.2 billion, liabilities $6.8 billion and net position held in trust for pension benefits $75.4 billion, an increase of $2.5 billion from 2014.

The major components of the assets, liabilities and net position available for pension benefits for 2015, 2014 and 2013 are as follows:

*(in millions of dollars)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Investments | $71,596 | $68,748 | $60,105 |
| Participants' interests in mutual funds | 4,948 | 5,044 | 3,739 |
| Investment of cash collateral | 5,177 | 6,563 | 6,540 |
| Other assets | 516 | 464 | 438 |
| **Total assets** | **82,237** | **80,819** | **70,822** |
| **LIABILITIES** | | | |
| Securities lending collateral | 5,178 | 6,562 | 6,540 |
| Other liabilities | 1,646 | 1,359 | 1,085 |
| **Total liabilities** | **6,824** | **7,921** | **7,625** |
| **NET POSITION HELD IN TRUST FOR PENSION BENEFITS** | | | |
| Members' defined benefit plan benefits | 55,123 | 52,854 | 45,405 |
| Participants' defined contribution plan benefits | 20,291 | 20,044 | 17,792 |
| **Total net position held in trust for pension benefits** | **$75,414** | **$72,898** | **$63,197** |

The statements of changes in the plans' fiduciary net position is a presentation of the UCRS' operating results. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2015, 2014 and 2013 is as follows:

*(in millions of dollars)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **ADDITIONS** | | | |
| Contributions | $4,459 | $ 3,216 | $2,176 |
| Net appreciation in fair value of investments | 1,320 | 9,137 | 5,106 |
| Investment and other income, net | 1,326 | 1,347 | 1,255 |
| **Total additions** | **7,105** | **13,700** | **8,537** |
| **DEDUCTIONS** | | | |
| Benefit payments and participant withdrawals | 4,534 | 3,953 | 3,761 |
| Plan expenses | 55 | 46 | 45 |
| **Total deductions** | **4,589** | **3,999** | **3,806** |
| **Increase in net position held in trust for pension benefits** | **$2,516** | **$ 9,701** | **$4,731** |

The Regents asset allocation strategies are intended to generate investment returns over time in accordance with investment objectives and at acceptable levels of risk. The overall investment gain based upon unit values for UCRS was 4.5 percent in 2015 as compared to investment gains of 14.0 percent in 2014 and 11.0 percent in 2013.

The participants' interests in mutual funds, representing defined contribution plan contributions to certain mutual funds on a custodial plan basis, fluctuate based upon market performance of the mutual funds and participant investment elections.

UCRS participates in the University's securities lending program as a means to augment income. All borrowers are required to provide collateral and the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. Investments in cash collateral and the securities lending collateral liability fluctuate in response to changes in demand from borrowers and the availability of securities based upon the UCRS asset allocation mix.

Contributions to UCRP in 2015, 2014 and 2013 were $4.5 billion, $3.2 billion and $2.2 billion, respectively. Contributions increased in 2015 due to additional deposits of $700 million made by the University to UCRP in July 2014. University contribution rates to UCRP were 14.0 percent of covered payroll in 2015 and 2014 and 12.0 percent in 2013. Employee contribution rates ranged from 7.0 percent to 9.0 percent in 2015 and 2014 and between 6.5 percent and 8.6 percent in 2013.

Benefit payments and participant withdrawals were $581.0 million more in 2015 than in 2014 and $192.0 million more in 2014 than in 2013. Payments from UCRP increase each year due to a growing number of retirees receiving payments and cost-of-living adjustments. Benefit payments from UCRSP fluctuate based upon member withdrawals. At the beginning of 2015, there were 67,300 retirees and beneficiaries receiving payments from UCRS as compared to 64,200 in 2014 and 58,900 at the beginning of 2013.

The net pension liability for UCRP was $10.6 billion in 2015, $7.7 billion in 2014 and $12.4 billion in 2013. The increase in net pension liability for 2015 of $2.9 billion was due to lower than expected investment returns and assumption changes. Assumptions changes in 2015 were made based on an experience study conducted for the period July 1, 2010 through June 30, 2014. The assumption changes, including lowering the expected rate of return to 7.25 percent from 7.5 percent, lowering the inflation rate from 3.5 percent to 3.0 percent and extending the mortality tables, increased the net pension liability in 2015 by $2.1 billion. The decrease in net pension liability for 2014 of $4.7 billion was primarily due to better than expected investment returns. The ratio of plan net position to total pension liability was 83.8 percent in 2015, 87.2 percent in 2014 and 78.6 percent in 2013.

Additional information on the retirement plans can be obtained from the 2015 annual reports of the University of California Retirement System by writing to the University of California, Office of the President, Human Resources and Benefits, Post Office Box 24570, Oakland, California 94623.

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

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

### UCRHBT's Financial Position and Result of Operations

The statement of trust's fiduciary net position presents the financial position of the UCRHBT at the end of the fiscal year. It displays all of the UCRHBT's assets, liabilities and net position. The difference between assets and liabilities is the net position held in trust for retiree health benefits. This represents amounts available to provide retiree health benefits to participants.

The major components of the assets, liabilities and net position available for retiree health benefits for 2015, 2014 and 2013 are as follows:

*(in millions of dollars)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Investments | $24 | $37 | $ 8 |
| Other assets | 39 | 39 | 40 |
| **Total assets** | **63** | **76** | **48** |
| **LIABILITIES** | | | |
| **Total liabilities** | **12** | **11** | **4** |
| **NET POSITION HELD IN TRUST FOR RETIREE HEALTH BENEFITS** | | | |
| **Total net position held in trust for retiree health benefits** | **$51** | **$65** | **$44** |

The statement of changes in trust's fiduciary net position is a presentation of the UCRHBT's operating results. It indicates whether the financial condition has improved or deteriorated during the year. Summarized operating results for 2015, 2014 and 2013 are as follows:

*(in millions of dollars)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **ADDITIONS** | | | |
| Contributions | $316 | $343 | $268 |
| **Total additions** | **316** | **343** | **268** |
| **DEDUCTIONS** | | | |
| Insurance premiums and payments | 327 | 318 | 310 |
| Plan expenses | 3 | 4 | 3 |
| **Total deductions** | **330** | **322** | **313** |
| **Increase (decrease) in net position held in trust for retiree health benefits** | **$(14)** | **$ 21** | **$ (45)** |

Contributions for retiree health benefits are made by the campuses and medical centers based upon projected pay-as-you-go financing. The University acts as a third-party administrative agent on behalf of the UCRHBT to pay health care insurers and administrators amounts currently due.

The retiree health benefits provided under the University's plan and any liabilities related to the future funding requirements for the retiree health benefits are reported by the University. The unfunded actuarial accrued liability for eligible participants as of July 1, 2014, the date of the latest actuarial valuation, was $14.0 billion.

## LOOKING FORWARD

The University of California is a world center of learning, known for generating a steady stream of talent, knowledge and social benefits, and has always been at the center of California's capacity to innovate. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in state, federal and private funding and promotes discovery of new knowledge that fuels economic growth.

The budget framework agreed to with the governor provides the University with base budget adjustments of four percent annually over the next four years, through 2019. The framework also calls for no tuition increases in 2016 and 2017, with tuition increases generally pegged to the rate of inflation to be implemented beginning in 2018. The Student Services Fee is to increase five percent in 2016 and each year thereafter with the customary one-third of the increase being directed to financial aid. Fifty percent of the remaining revenue generated from the increase will be used to enhance student mental health services and the remaining 50.0 percent will be distributed to support other student services programs. The framework also acknowledges the University's plan to increase nonresident supplemental tuition by up to eight percent for 2016 and 2017 and five percent thereafter. The framework also recognizes the increases in professional degree supplemental tuition approved by The Regents in November 2014 for existing and new programs and calls for no increases in law school tuition for the next four years. The framework also provides $25.0 million in one-time funding for deferred maintenance. In addition to these funding elements, the budget framework includes a number of performance-related provisions.

The University will also receive $436.0 million in one-time funds over the next three years for UCRP, including $96.0 million in 2016, $170.0 million in 2017 and $170.0 million in 2018. This funding is contingent upon The Regents' approval of a cap on pensionable salary at the same rate as the state's Public Employee Pension Reform Act (PEPRA) cap for the defined benefit plan for employees hired on or after July 1, 2016. The pension cap now in place is equivalent to the Internal Revenue Service level, currently $265,000; for employees hired on or after July 1, 2016, pensionable salaries would be capped at $117,020 in 2016, for those in the defined benefit plan. These changes will only affect new employees hired after the new options are implemented. For represented groups, retirement options will be subject to collective bargaining.

The University remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the University's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration and the Department of Energy. The University is a unique national resource for helping the nation address competitiveness and economic initiatives.

Currently, the University does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. The unfunded liability for the campuses and medical centers as of the July 1, 2015 actuarial valuation was $17.3 billion based upon using a discount rate of 4.5 percent. The Regents approved a new eligibility formula for the retiree health plan for all employees hired on or after July 1, 2013, and non-grandfathered members, that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members. The University's retiree health benefit obligations reported in the financial statements are expected to increase as a result of new accounting pronouncements that will be effective in the future.

The University's medical centers have positive operating margins, although they continue to face financial and competitive challenges in their regional markets, along with the added costs and responsibilities related to their function as academic institutions. The demand for health care services and the cost of providing them continue to increase significantly. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, along with the costs of maintaining and upgrading facilities, the University's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance payments do not recognize the added cost of teaching in their payment to academic medical centers. The growth in costs of the publicly funded programs and health care reform will likely continue to reduce rates or limit payment growth, placing downward pressure on operating results for the medical centers.

The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. The support for the University's capital program are expected to be provided from a combination of sources, including the state of California, external financing, gifts and other sources.

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

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by the University, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the University expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The University does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

# Independent Auditors' Report

THE BOARD OF REGENTS
UNIVERSITY OF CALIFORNIA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the University of California (the University), a component unit of the State of California, its aggregate discretely presented component units, the University of California Retirement System, and the University of California Retiree Health Benefit Trust, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, listed in the table of contents as pages 38 through 107.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of California San Francisco Foundation, which statements reflect total assets constituting 19 percent and 16 percent and total revenues constituting 23 percent and 20 percent of the aggregate discretely presented component units as of June 30, 2015 and June 30, 2014, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of California San Francisco Foundation, is based solely on the report of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University, its aggregate discretely presented component units, the University of California Retirement System, and the University of California Retiree Health Benefit Trust as of June 30, 2015 and 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

**Other Matters**

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 16 through 34, and the schedules of changes in net pension liability, net pension liability, employers' contributions and funding progress on pages 108 through 113 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

KPMG LLP

IRVINE, CALIFORNIA
OCTOBER 9, 2015

UNIVERSITY OF CALIFORNIA

# STATEMENTS OF NET POSITION

*At June 30, 2015 and 2014 (in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 135,656 | $ 140,429 | $ 221,544 | $ 182,282 |
| Short-term investments | 6,190,287 | 3,334,675 | 550,895 | 473,756 |
| Investment of cash collateral | 516,678 | 848,436 | 24,551 | 35,695 |
| Investments held by trustees | 46,116 | 24,619 | | |
| Accounts receivable, net | 3,217,945 | 3,000,773 | 201,429 | 103,053 |
| Pledges receivable, net | 21,426 | 26,833 | 199,488 | 222,531 |
| Notes and mortgages receivable, net | 43,807 | 43,497 | 12 | 5 |
| Inventories | 201,870 | 189,758 | 5,587 | 4,857 |
| Department of Energy receivable | 92,938 | 97,342 | | |
| Other current assets | 229,937 | 197,358 | 13,538 | 11,316 |
| **Current assets** | **10,696,660** | **7,903,720** | **1,217,044** | **1,033,495** |
| Investments | 16,098,860 | 18,206,378 | 6,607,631 | 6,230,614 |
| Investment of cash collateral | 258,566 | 369,718 | 12,287 | 15,554 |
| Investments held by trustees | 822,726 | 864,148 | | |
| Pledges receivable, net | 26,559 | 34,780 | 626,648 | 642,337 |
| Notes and mortgages receivable, net | 336,606 | 321,665 | 1,375 | 1,296 |
| Department of Energy receivable | 1,309,871 | 1,488,634 | | |
| Capital assets, net | 28,374,629 | 27,361,525 | 268,150 | 283,632 |
| Other noncurrent assets | 182,353 | 217,453 | 30,812 | 44,868 |
| **Noncurrent assets** | **47,410,170** | **48,864,301** | **7,546,903** | **7,218,301** |
| **Total assets** | **58,106,830** | **56,768,021** | **8,763,947** | **8,251,796** |
| **DEFERRED OUTFLOWS OF RESOURCES** | **5,606,175** | **3,700,014** | **45,695** | **5,445** |
| **LIABILITIES** | | | | |
| Accounts payable | 1,551,666 | 1,357,675 | 39,864 | 44,319 |
| Accrued salaries | 1,066,072 | 990,371 | 7,456 | 6,894 |
| Employee benefits | 461,788 | 439,902 | 2,781 | 3,033 |
| Unearned revenue | 1,051,828 | 1,028,673 | 14,150 | 32,804 |
| Collateral held for securities lending | 775,250 | 1,217,834 | 36,838 | 51,249 |
| Commercial paper | 1,084,922 | 993,650 | | |
| Current portion of long-term debt | 1,306,499 | 1,186,884 | | |
| Funds held for others | 404,925 | 319,324 | 236,030 | 241,685 |
| Department of Energy laboratories' liabilities | 78,481 | 81,305 | | |
| Other current liabilities | 1,449,363 | 1,273,403 | 59,880 | 70,739 |
| **Current liabilities** | **9,230,794** | **8,889,021** | **396,999** | **450,723** |
| Federal refundable loans | 244,119 | 232,878 | | |
| Self-insurance | 477,398 | 443,040 | 18,146 | 16,091 |
| Obligations under life income agreements | 29,221 | 28,700 | 135,752 | 140,818 |
| Long-term debt | 16,629,334 | 15,850,215 | | |
| Pension obligations | 10,620,278 | 7,713,863 | 50,675 | 11,212 |
| Obligations for retiree health benefits | 9,390,079 | 8,440,303 | | |
| Other noncurrent liabilities | 584,723 | 510,247 | 102,457 | 81,677 |
| **Noncurrent liabilities** | **37,975,152** | **33,219,246** | **307,030** | **249,798** |
| **Total liabilities** | **47,205,946** | **42,108,267** | **704,029** | **700,521** |
| **DEFERRED INFLOWS OF RESOURCES** | **5,305,529** | **7,077,909** | **23,747** | **30,653** |
| **NET POSITION** | | | | |
| Net investment in capital assets | 11,925,814 | 11,884,373 | 212,235 | 224,314 |
| Restricted: | | | | |
| Nonexpendable: Endowments and gifts | 1,046,515 | 1,013,570 | 3,446,874 | 3,179,940 |
| Nonexpendable: Reserved for minority interests | 40,255 | 43,343 | | |
| Expendable: Endowments and gifts | 6,350,690 | 6,162,192 | 4,060,344 | 3,846,291 |
| Expendable: Other, including debt service, loans, capital projects and appropriations | 822,643 | 781,710 | 2,143 | 2,284 |
| Unrestricted | (8,984,387) | (8,603,329) | 360,270 | 273,238 |
| **Total net position** | **$11,201,530** | **$11,281,859** | **$8,081,866** | **$7,526,067** |

*See accompanying Notes to Financial Statements.*

UNIVERSITY OF CALIFORNIA

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| *Years ended June 30, 2015 and 2014 (in thousands of dollars)* | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **OPERATING REVENUES** | | | | |
| Student tuition and fees, net | $ 3,784,046 | $ 3,585,859 | | |
| Grants and contracts, net: | | | | |
| Federal | 3,176,456 | 3,176,902 | $ 30,887 | $ 20,364 |
| State | 439,342 | 460,540 | | 416 |
| Private | 1,263,910 | 1,180,867 | 16,208 | 27,038 |
| Local | 273,687 | 249,924 | 4,271 | 1,685 |
| Medical centers, net | 8,972,683 | 8,055,683 | 504,191 | 357,823 |
| Educational activities, net | 2,740,212 | 2,378,484 | | |
| Auxiliary enterprises, net | 1,394,067 | 1,316,419 | | |
| Department of Energy laboratories | 1,234,509 | 1,250,820 | | |
| Campus foundation private gifts | | | 765,445 | 789,573 |
| Other operating revenues, net | 891,261 | 712,141 | 21,213 | 24,759 |
| **Total operating revenues** | **24,170,173** | **22,367,639** | **1,342,215** | **1,221,658** |
| **OPERATING EXPENSES** | | | | |
| Salaries and wages | 12,869,982 | 12,034,140 | 239,066 | 228,001 |
| Pension benefits | 1,504,777 | 1,285,997 | 10,344 | 5,703 |
| Retiree health benefits | 1,274,218 | 1,216,648 | 375 | 296 |
| Other employee benefits | 2,604,894 | 2,439,123 | 61,736 | 57,655 |
| Supplies and materials | 2,816,885 | 2,543,340 | 59,559 | 41,628 |
| Depreciation and amortization | 1,661,033 | 1,709,672 | 36,882 | 29,940 |
| Department of Energy laboratories | 1,228,125 | 1,244,335 | | |
| Scholarships and fellowships | 547,072 | 577,212 | | |
| Utilities | 273,042 | 290,444 | | |
| Campus foundation grants | | | 827,467 | 958,873 |
| Other operating expenses | 4,021,655 | 3,608,153 | 159,726 | 142,016 |
| **Total operating expenses** | **28,801,683** | **26,949,064** | **1,395,155** | **1,464,112** |
| **Operating loss** | **(4,631,510)** | **(4,581,425)** | **(52,940)** | **(242,454)** |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| State educational appropriations | 2,791,652 | 2,637,896 | | |
| State financing appropriations | 230 | 458 | | |
| State hospital fee grants | 22,013 | 1,558 | | |
| Build America Bonds federal interest subsidies | 57,119 | 59,327 | | |
| Federal Pell Grants | 376,186 | 316,064 | | |
| Private gifts, net | 957,131 | 881,648 | 14,114 | 8,966 |
| Investment income: | | | | |
| Short Term Investment Pool and other, net | 216,457 | 230,019 | | |
| Endowment, net | 86,177 | 76,226 | | |
| Securities lending, net | 6,718 | 6,949 | 409 | 363 |
| Discretely presented component units | | | 74,324 | 94,343 |
| Net appreciation in fair value of investments | 543,712 | 1,827,628 | 207,052 | 677,302 |
| Interest expense | (662,395) | (615,556) | (119) | (1,444) |
| Loss on disposal of capital assets | (16,145) | (2,152) | | |
| Other nonoperating revenues (expenses), net | (18,112) | 33,440 | (5,079) | 9,156 |
| **Net nonoperating revenues** | **4,360,743** | **5,453,505** | **290,701** | **788,686** |
| **Income (loss) before other changes in net position** | **(270,767)** | **872,080** | **237,761** | **546,232** |
| **OTHER CHANGES IN NET POSITION** | | | | |
| Capital gifts and grants, net | 142,986 | 431,836 | 43,850 | 41,628 |
| State capital appropriations | 20,752 | 44,961 | | |
| Permanent endowments | 26,700 | 20,236 | 274,188 | 273,503 |
| **(Decrease) increase in net position** | **(80,329)** | **1,369,113** | **555,799** | **861,363** |
| **NET POSITION** | | | | |
| Beginning of year | 11,281,859 | 9,912,746 | 7,526,067 | 6,664,704 |
| **End of year** | **$11,201,530** | **$11,281,859** | **$8,081,866** | **$7,526,067** |

*See accompanying Notes to Financial Statements.*

UNIVERSITY OF CALIFORNIA

## STATEMENTS OF CASH FLOWS

| *Years ended June 30, 2015 and 2014 (in thousands of dollars)* | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Student tuition and fees | $ 3,785,727 | $ 3,567,031 | | |
| Grants and contracts | 5,607,580 | 5,556,286 | | |
| Medical centers | 8,898,076 | 8,053,684 | $ 473,111 | $ 375,273 |
| Educational activities | 2,712,261 | 2,387,096 | | |
| Auxiliary enterprises | 1,398,353 | 1,320,755 | | |
| Collection of loans from students and employees | 70,838 | 65,731 | | |
| Campus foundation private gifts | | | 521,110 | 539,013 |
| Payments to employees | (12,732,819) | (11,933,305) | (237,829) | (196,996) |
| Payments to suppliers and utilities | (6,760,700) | (6,122,274) | (200,153) | (171,868) |
| Payments for pension benefits | (2,531,724) | (1,578,009) | (18,000) | (14,500) |
| Payments for retiree health benefits | (273,997) | (298,594) | (205) | (250) |
| Payments for other employee benefits | (2,659,931) | (2,486,814) | (63,370) | (83,132) |
| Payments for scholarships and fellowships | (545,800) | (576,989) | | |
| Loans issued to students and employees | (83,366) | (75,060) | | |
| Payments to campuses and beneficiaries | | | (881,402) | (972,923) |
| Other receipts | 682,923 | 470,717 | 83,385 | 87,793 |
| **Net cash used by operating activities** | **(2,432,579)** | **(1,649,745)** | **(323,353)** | **(437,590)** |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| State educational appropriations | 2,794,867 | 2,641,928 | | |
| Federal Pell Grants | 376,472 | 315,887 | | |
| State hospital fee grants | 22,013 | 1,558 | | |
| *Gifts received for other than capital purposes:* | | | | |
| Private gifts for endowment purposes | 21,687 | 21,527 | 186,120 | 236,969 |
| Other private gifts | 940,275 | 867,765 | 14,114 | 8,731 |
| Receipt of retiree health contributions from UCRP | 52,313 | 44,114 | | |
| Payment of retiree health contributions to UCRHBT | (51,404) | (43,695) | | |
| Receipts from UCRHBT | 318,917 | 304,565 | | |
| Payments for retiree health benefits made on behalf of UCRHBT | (326,173) | (306,114) | | |
| Student direct lending receipts | 903,579 | 908,900 | | |
| Student direct lending payments | (903,559) | (908,875) | | |
| *Commercial paper financing:* | | | | |
| Proceeds from issuance | 8,818 | 15,893 | | |
| Payments of principal | (14,225) | (304,277) | | |
| Interest paid on debt | (10,941) | (10,972) | | |
| Other receipts (payments) | (49,914) | 32,778 | 148,590 | (9,668) |
| **Net cash provided by noncapital financing activities** | **4,082,725** | **3,580,982** | **348,824** | **236,032** |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| *Commercial paper financing:* | | | | |
| Proceeds from issuance | 685,182 | 699,999 | | |
| Payments of principal | (588,503) | (1,024,480) | | |
| Interest paid | (2,065) | (1,715) | | |
| State capital appropriations | 31,437 | 55,544 | | |
| State financing appropriations | 113 | 1,832 | | |
| Build America Bonds federal interest subsidies | 58,219 | 56,708 | (2,200) | |
| Capital gifts and grants | 161,426 | 358,061 | 46,692 | 43,475 |
| Proceeds from debt issuance | 3,659,475 | 1,891,948 | | 58,120 |
| Proceeds from the sale of capital assets | 63,295 | 14,568 | 239 | 232 |
| Purchase of capital assets | (2,582,876) | (2,323,307) | (20,488) | (70,411) |
| Refinancing or prepayment of outstanding debt | (2,325,581) | (43,843) | | (59,207) |
| Scheduled principal paid on debt and capital leases | (360,650) | (413,044) | (1,198) | (7,444) |
| Interest paid on debt and capital leases | (841,367) | (787,427) | (185) | (2,988) |
| **Net cash provided (used) by capital and related financing activities** | **$(2,041,895)** | **$ (1,515,156)** | **$ 22,860** | **$ (38,223)** |

*See accompanying Notes to Financial Statements.*

UNIVERSITY OF CALIFORNIA

## STATEMENTS OF CASH FLOWS *continued*

| *Years ended June 30, 2015 and 2014 (in thousands of dollars)* | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from sales and maturities of investments | $81,882,206 | $ 67,865,326 | $ 1,999,171 | $ 1,557,669 |
| Purchase of investments | (81,801,018) | (68,658,229) | (2,073,394) | (1,374,549) |
| Investment income, net of investment expenses | 305,788 | 323,030 | 65,154 | 65,804 |
| **Net cash provided (used) by investing activities** | **386,976** | **(469,873)** | **(9,069)** | **248,924** |
| **Net increase (decrease) in cash and cash equivalents** | **(4,773)** | **(53,792)** | **39,262** | **9,143** |
| Cash and cash equivalents, beginning of year | 140,429 | 194,221 | 182,282 | 173,139 |
| **Cash and cash equivalents, end of year** | **$ 135,656** | **$ 140,429** | **$ 221,544** | **$ 182,282** |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES** | | | | |
| Operating loss | $ (4,631,510) | $ (4,581,425) | $ (52,940) | $ (242,454) |
| *Adjustments to reconcile operating loss to net cash used by operating activities:* | | | | |
| Depreciation and amortization expense | 1,661,033 | 1,709,672 | 36,882 | 29,940 |
| Noncash gifts | | | (265,506) | (77,175) |
| Allowance for uncollectible accounts | 325,104 | 348,037 | (2,849) | 21,049 |
| Loss on impairment of capital assets | 11,219 | 11,202 | | |
| *Change in assets and liabilities:* | | | | |
| Investments held by trustees | (37,590) | (33,948) | | |
| Accounts receivable | (561,080) | (451,523) | (32,097) | 6,218 |
| Pledges receivable | | | 53,092 | (159,793) |
| Inventories | (12,111) | (3,767) | (730) | (390) |
| Other assets | (10,615) | (6,093) | (436) | (371) |
| Accounts payable | 40,362 | 62,006 | (9,643) | 2,262 |
| Accrued salaries | 75,702 | 64,570 | 562 | 51 |
| Employee benefits | 20,701 | 43,999 | (252) | |
| Unearned revenue | 21,417 | 78,580 | (19) | 2,125 |
| Department of Energy, net | 204,521 | 615,859 | | |
| Self-insurance | 47,564 | 12,779 | 2,055 | 2,618 |
| Obligations under life income agreements | | | (13,649) | (15,139) |
| Pension obligations | (755,778) | (446,924) | (9,121) | (9,704) |
| Obligations for retiree health benefits | 949,777 | 862,938 | | |
| Other liabilities | 218,705 | 64,293 | (28,702) | 3,173 |
| **Net cash used by operating activities** | **$(2,432,579)** | **$ (1,649,745)** | **$ (323,353)** | **$ (437,590)** |
| **SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION** | | | | |
| Capital assets acquired through capital leases | $43,011 | $ 36,470 | | |
| Capital assets acquired with a liability at year-end | 75,252 | 82,625 | $ 2,317 | |
| Change in fair value of interest rate swaps classified as hedging derivatives | (15,853) | (29,481) | | |
| Gifts of capital assets | (8,451) | 69,115 | | |
| Other noncash gifts | 29,309 | 27,136 | 350,126 | $105,779 |
| Other borrowings from conversion of interest rate swap to hedging derivative | | 14,025 | | |
| *Debt service for, or refinancing of, lease revenue bonds:* | | | | |
| Principal paid | | (2,406,740) | | |
| Interest paid | | (14,000) | | |
| *Proceeds from general revenue bonds used to refinance lease revenue bonds:* | | | | |
| Principal received | | 2,389,830 | | |
| Bond premium received | | 185,534 | | |
| Investments held by trustee used to refinance lease revenue bonds | | 180,303 | | |
| Interest added to principal | | | 15,960 | 27,917 |
| Beneficial interest in charitable remainder trust | | | (254) | 91 |

*See accompanying Notes to Financial Statements.*

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM AND RETIREE HEALTH BENEFIT TRUST

## STATEMENTS OF PLANS' AND TRUST'S FIDUCIARY NET POSITION

| *At June 30, 2015 and 2014 (in thousands of dollars)* | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS) | | UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT) | | TOTAL UCRS AND UCRHBT | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **ASSETS** | | | | | | |
| Investments | $71,595,607 | $68,747,604 | $24,250 | $37,125 | $71,619,857 | $68,784,729 |
| Participants' interests in mutual funds | 4,947,859 | 5,044,424 | | | 4,947,859 | 5,044,424 |
| Investment of cash collateral | 5,177,490 | 6,563,272 | | | 5,177,490 | 6,563,272 |
| Participant 403(b) loans | 176,229 | 170,215 | | | 176,229 | 170,215 |
| Accounts receivable: | | | | | | |
| Contributions from University and affiliates | 157,541 | 135,279 | 21,250 | 22,961 | 178,791 | 158,240 |
| Investment income | 89,877 | 85,911 | | | 89,877 | 85,911 |
| Securities sales and other | 92,870 | 72,006 | 4 | 3 | 92,874 | 72,009 |
| Prepaid insurance premiums | | | 17,192 | 16,390 | 17,192 | 16,390 |
| **Total assets** | **82,237,473** | **80,818,711** | **62,696** | **76,479** | **82,300,169** | **80,895,190** |
| **LIABILITIES** | | | | | | |
| Payable to University | | | 12,051 | 11,295 | 12,051 | 11,295 |
| Payable for securities purchased | 1,357,366 | 1,083,699 | | | 1,357,366 | 1,083,699 |
| Member withdrawals, refunds and other payables | 288,649 | 275,415 | | | 288,649 | 275,415 |
| Collateral held for securities lending | 5,177,555 | 6,561,614 | | | 5,177,555 | 6,561,614 |
| **Total liabilities** | **6,823,570** | **7,920,728** | **12,051** | **11,295** | **6,835,621** | **7,932,023** |
| **NET POSITION HELD IN TRUST** | | | | | | |
| Members' defined benefit plan benefits | 55,122,875 | 52,853,829 | | | 55,122,875 | 52,853,829 |
| Participants' defined contribution plan benefits | 20,291,028 | 20,044,154 | | | 20,291,028 | 20,044,154 |
| Retiree health benefits | | | 50,645 | 65,184 | 50,645 | 65,184 |
| **Total net position held in trust** | **$75,413,903** | **$72,897,983** | **$50,645** | **$65,184** | **$75,464,548** | **$72,963,167** |

*See accompanying Notes to Financial Statements.*

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM AND RETIREE HEALTH BENEFIT TRUST

## STATEMENTS OF CHANGES IN PLANS' AND TRUST'S FIDUCIARY NET POSITION

| *Years ended June 30, 2015 and 2014* *(in thousands of dollars)* | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS) | | UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT) | | TOTAL UCRS AND UCRHBT | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **ADDITIONS (REDUCTIONS)** | | | | | | |
| *Contributions:* | | | | | | |
| Members and employees | $ 1,942,364 | $ 1,628,638 | | | $ 1,942,364 | $ 1,628,638 |
| Retirees | | | $ 56,340 | $ 47,722 | 56,340 | 47,722 |
| University | 2,516,438 | 1,587,074 | 259,246 | 295,673 | 2,775,684 | 1,882,747 |
| **Total contributions** | **4,458,802** | **3,215,712** | **315,586** | **343,395** | **4,774,388** | **3,559,107** |
| *Investment income (expense), net:* | | | | | | |
| Net appreciation in fair value of investments | 1,320,388 | 9,137,618 | | | 1,320,388 | 9,137,618 |
| Interest, dividends and other investment income | 1,286,931 | 1,304,521 | 41 | 13 | 1,286,972 | 1,304,534 |
| Securities lending income | 44,583 | 47,664 | | | 44,583 | 47,664 |
| Securities lending fees and rebates | (8,065) | (7,454) | | | (8,065) | (7,454) |
| **Total investment income, net** | **2,643,837** | **10,482,349** | **41** | **13** | **2,643,878** | **10,482,362** |
| Interest income from contributions receivable | 2,047 | 2,361 | | | 2,047 | 2,361 |
| **Total additions** | **7,104,686** | **13,700,422** | **315,627** | **343,408** | **7,420,313** | **14,043,830** |
| **DEDUCTIONS** | | | | | | |
| *Benefit payments:* | | | | | | |
| Retirement payments | 2,016,091 | 1,875,734 | | | 2,016,091 | 1,875,734 |
| Member withdrawals | 178,446 | 109,486 | | | 178,446 | 109,486 |
| Cost-of-living adjustments | 401,384 | 370,000 | | | 401,384 | 370,000 |
| Lump sum cash outs | 300,198 | 253,807 | | | 300,198 | 253,807 |
| Preretirement survivor payments | 44,396 | 41,995 | | | 44,396 | 41,995 |
| Disability payments | 32,201 | 33,411 | | | 32,201 | 33,411 |
| Death payments | 9,357 | 8,276 | | | 9,357 | 8,276 |
| Participant withdrawals | 1,551,916 | 1,260,155 | | | 1,551,916 | 1,260,155 |
| **Total benefit payments** | **4,533,989** | **3,952,864** | | | **4,533,989** | **3,952,864** |
| *Insurance premiums:* | | | | | | |
| Insured plans | | | 210,953 | 244,461 | 210,953 | 244,461 |
| Self-insured plans | | | 105,159 | 60,702 | 105,159 | 60,702 |
| Medicare Part B reimbursements | | | 10,907 | 13,327 | 10,907 | 13,327 |
| **Total insurance premiums, net** | | | **327,019** | **318,490** | **327,019** | **318,490** |
| *Other deductions:* | | | | | | |
| Plan administration | 42,762 | 42,374 | 3,147 | 4,034 | 45,909 | 46,408 |
| Other | 12,015 | 4,077 | | | 12,015 | 4,077 |
| **Total other deductions** | **54,777** | **46,451** | **3,147** | **4,034** | **57,924** | **50,485** |
| **Total deductions** | **4,588,766** | **3,999,315** | **330,166** | **322,524** | **4,918,932** | **4,321,839** |
| **Increase in net position held in trust** | **2,515,920** | **9,701,107** | **(14,539)** | **20,884** | **2,501,381** | **9,721,991** |
| **NET POSITION HELD IN TRUST** | | | | | | |
| Beginning of year | 72,897,983 | 63,196,876 | 65,184 | 44,300 | 72,963,167 | 63,241,176 |
| **End of year** | **$75,413,903** | **$ 72,897,983** | **$ 50,645** | **$ 65,184** | **$75,464,548** | **$72,963,167** |

*See accompanying Notes to Financial Statements.*

# Notes to Financial Statements

*Years ended June 30, 2015 and 2014*

## ORGANIZATION

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) is appointed by the governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's basic financial statements as a component unit.

## FINANCIAL REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

### Financial Reporting Entity

The University's financial statements include the accounts of ten campuses, five medical centers, a statewide agricultural extension program and the operations of most student government or associated student organizations as part of the primary financial reporting entity because The Regents has certain fiduciary responsibility for these organizations. In addition, the financial position and operating results of certain other legally separate organizations are included in the University's financial reporting entity on a blended basis if The Regents is determined to be financially accountable for the organization. Organizations that are not significant or for which the University is not financially accountable, such as booster and alumni organizations, are not included in the reporting entity. However, cash invested with the University by these organizations, along with the related liability, is included in the statement of net position. The statement of revenues, expenses and changes in net position excludes the activities associated with these organizations.

The University has ten legally separate, tax-exempt, affiliated campus foundations. The economic resources received or held by the foundations are entirely for the benefit of the campuses. Because of the nature and significance of their relationship with the University, including their ongoing financial support, the campus foundations are reported under GASB requirements as discretely presented component units of the University. The Regents are the sole corporate and voting member of Children's Hospital & Research Center Oakland ("CHRCO"), a private, not-for-profit 501(c)(3) corporation. A Board of Directors comprised primarily of independent directors serves as the governing body of CHRCO. Certain corporate powers are reserved to The Regents, including the power to appoint and remove directors and to approve CHRCO's strategic plan and budget. Children's Hospital & Research Center Foundation, a nonprofit public benefit corporation, is organized and operated for the purpose of supporting CHRCO. The San Francisco campus provides certain management services for CHRCO. Since the University has the ability to impose its will on CHRCO, under accounting requirements, CHRCO combined with its foundation is reported as a discretely presented component unit of the University. The ten campus foundations and CHRCO combined are reported as discretely presented component units in the accompanying financial statements.

Specific assets and liabilities and all revenues and expenses associated with the Lawrence Berkeley National Laboratory (LBNL), a major United States Department of Energy (DOE) national laboratory operated and managed by the University under contract directly with the DOE, are included in the accompanying financial statements.

The Regents has fiduciary responsibility for the University of California Retirement System (UCRS) that includes two defined benefit plans, the University of California Retirement Plan (UCRP) and the University of California Public Employees' Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS–VERIP), and four defined contribution plans in the University of California Retirement Savings Program (UCRSP), consisting of the Defined Contribution Plan (DC Plan), the Supplemental Defined Contribution Plan (SDC Plan), the Tax-Deferred 403(b) Plan (403(b) Plan) and the 457(b) Deferred Compensation Plan (457(b) Plan). As a result, the UCRS statements of plans' fiduciary net position and changes in plans' fiduciary net position are shown as a fiduciary fund in the University's financial statements.

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

## Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting. The University follows accounting principles issued by the Governmental Accounting Standards Board (GASB).

The significant  accounting policies of the University are as follows:

***Cash and cash equivalents.*** The University and the discretely presented component units consider all balances in demand deposit accounts to be cash. The University classifies all other highly liquid cash equivalents with original maturities less than one year, as short-term investments. Certain campus foundations classify their deposits in the University's Short Term Investment Pool as a cash equivalent.

***Investments.*** Investments are recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Investments also include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. Fair values for interests in private equity, absolute value partnerships and real estate partnerships are based on valuations provided by the general partners of the respective partnerships. Interests in certain direct investments in real estate are estimated based upon independent appraisals. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statement of revenues, expenses and changes in net position.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded at estimated fair value at the date of donation.

Campus foundations may invest all or a portion of their investments in University-managed investment pools. Securities in these investment pools are included in the University's security lending program. Accordingly, the campus foundations' investments in University-managed investment pools and their allocated share of the securities lending activities have been excluded from the University's financial statements and displayed in the discretely presented component units' column.

***Funds held by trustees.*** The University and its discretely presented component units have been named the irrevocable beneficiary for charitable remainder trusts for which the University and its discretely presented component units are not the trustee. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the University or the campus foundation. These funds cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. The University and its discretely presented component units are also an income beneficiary of certain trusts where the assets are invested and administered by outside trustees.

Consistent with the University's and its discretely presented component units recognition policy for pledges of endowments, receivables and contribution revenue associated with these trusts are not reflected in the accompanying financial statements. The University and its discretely presented component units recognize contribution revenue when all eligibility requirements have been met.

***Derivative financial instruments.*** Derivative instruments are recorded at estimated fair value. Futures contracts, foreign currency exchange contracts, stock rights and warrants, options and swaptions are valued at the last sales price on the last day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Financial institutions or independent advisors have estimated the fair value of the interest rate swaps and total return swaps using quoted market prices when available or discounted expected future net cash flows.

The University has entered into interest rate swap agreements to limit the exposure of its variable-rate debt to changes in market interest rates. Interest rate swap agreements involve the exchange with a counterparty of fixed- and variable-rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The net differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The University's counterparties are major financial institutions.

Derivatives are recorded at estimated fair value as either assets or liabilities in the statement of net position. Certain derivatives are determined to be hedging derivatives and designated as either a fair value or cash flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values).

Changes in the fair value of derivatives that are not hedging derivatives are recorded as net appreciation or depreciation in fair value of investments in the statement of revenues, expenses and changes in net position.

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

***Accounts receivable, net.*** Accounts receivable, net of allowance for uncollectible amounts, include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, educational activities and amounts due from students, employees and faculty for services.

***Pledges receivable, net.*** Unconditional pledges of private gifts to the University or to the discretely presented component units, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the net present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met. Receivables and contribution revenue associated with externally held investment trusts are not reflected in the accompanying financial statements. The University recognizes contribution revenue when all eligibility requirements have been met.

***Notes and mortgages receivable, net.*** Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other University sources. Mortgage loans provided by the Short Term

Investment Pool are classified as investments and loans provided by other sources are classified as mortgages receivable in the statements of net position.

***Inventories.*** Inventories for the campuses, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined under the weighted average method, which is not in excess of estimated net realizable value. Inventories for the medical centers consist primarily of pharmaceuticals and medical supplies which are stated on a first-in, first-out basis at the lower of cost or market.

***DOE national laboratories.*** The University operates and manages LBNL under a contract directly with the DOE. Specific assets and liabilities and all revenues and expenses associated with LBNL are included in the financial statements. Other assets, such as cash, property and equipment and other liabilities of LBNL are owned by the United States government rather than the University and, therefore, are not included in the statement of net position. The statement of cash flows excludes the cash flows associated with LBNL other than reimbursements, primarily related to pension and health benefits, since all other cash transactions are recorded in bank accounts owned by the DOE.

The University is a member in two separate joint ventures, Los Alamos National Security, LLC (LANS), and Lawrence Livermore National Security, LLC (LLNS), that operate and manage two other DOE laboratories, Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE. The University's investment in LANS and LLNS is accounted for using the equity method. Accordingly, the University's statement of net position includes its equity interest in LANS and LLNS, adjusted for the equity in undistributed earnings or losses and the statement of revenues, expenses and changes in net position includes its equity in the current earnings or losses of LANS and LLNS.

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

***Capital assets, net.*** Land, infrastructure, buildings and improvements, intangible assets, equipment, libraries, collections and special collections are recorded at cost at the date of acquisition, or estimated fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual value. Intangible assets include easements, land rights, trademarks, patents and other similar arrangements. Capital leases are recorded at the estimated present value of future minimum lease payments. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital assets. All costs of land, library collections and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Equipment under capital leases is amortized over the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

| | YEARS |
|---|---|
| Infrastructure | 25 |
| Buildings and improvements | 15–33 |
| Equipment | 2–20 |
| Computer software | 3–7 |
| Intangible assets | 2 – indefinite |
| Library books and collections | 15 |

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets, such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowings during the temporary investment of project related borrowings.

***Service concession arrangements.*** The University has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Under these arrangements, the University enters into ground leases with third parties at minimal or no cost, and gives the third party the right to construct, operate and maintain a facility, primarily for the benefit of students and faculty at competitive rates. Rate increases for use of the facilities are subject to certain constraints and ownership of the facilities reverts to the University upon expiration of the ground lease. The facilities are reported as capital assets by the University when placed in service, and a corresponding deferred inflow of resources is reported. The University has not provided guarantees on financing obtained by the third parties under these arrangements.

***Unearned revenue.*** Unearned revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees for housing and dining services.

***Funds held for others.*** Funds held for others result from the University or the discretely presented component units acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to the University or the discretely presented component units.

***Federal refundable loans.*** Certain loans to students are administered by the University with funding primarily supported by the federal government. The University's statement of net position includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

***Bond premium.*** The premium received in the issuance of long-term debt is amortized as a reduction to interest expense over the term of the related long-term debt.

***Self-insurance programs***. The University is self-insured or insured through a wholly owned captive insurance company for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments. Settlements did not exceed insurance coverage for each of the past three fiscal years.

***Obligations under life income agreements.*** Obligations under life income agreements represent trusts with living income beneficiaries where the University has a residual interest. The investments associated with these agreements are recorded at fair value. The discounted present value of any income beneficiary interest is reported as a liability in the statement of net position. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains and losses are included in other nonoperating income (expense) in the statement of revenues, expenses and changes in net position. Resources that are expendable upon maturity are classified as restricted, expendable net position; all others are classified as restricted, nonexpendable net position.

***Pollution remediation obligations.*** Upon an obligating event, the University estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated that the University is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost of recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2015 reducing the pollution remediation liability.

***Deferred outflows of resources and deferred inflows of resources.*** The University classifies gains on retirement of debt as deferred inflows of resources and losses as deferred outflows of resources and amortizes such amounts as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

The University classifies an increase in the fair value of the hedging derivatives as deferred inflows of resources, and a decrease as deferred outflows of resources. Payments received or to be received by the University from service concession arrangements are reported as deferred inflows of resources.

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

***Net position.*** Net position is required to be classified for accounting and reporting purposes into the following categories:

*Net investment in capital assets.* This category includes all of the University's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

*Restricted.* The University and the discretely presented component units classify the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

*Nonexpendable.* The net position subject to externally imposed restrictions, which must be retained in perpetuity by the University or the discretely presented component units, are classified as nonexpendable net position. This includes the University and campus foundation permanent endowment funds.

Also included in nonexpendable net position are minority interests, which include the net position of legally separate organizations attributable to other participants.

*Expendable.* The net position whose use by the University or the discretely presented component units are subject to externally imposed restrictions that can be fulfilled by actions of the University or the discretely presented component units pursuant to those restrictions or that expire by the passage of time are classified as expendable net position.

*Unrestricted.* The net position that is not subject to externally imposed restrictions governing their use are classified as unrestricted net position. The University's unrestricted net position may be designated for specific purposes by management or The Regents. The discretely presented component units' unrestricted net position may be designated for specific purposes by their Boards of Trustees. Substantially, all of the University's unrestricted net position is allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Expenses are charged to either restricted or unrestricted net position based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, the University's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

***Revenues and expenses.*** Operating revenues of the University include receipts from student tuition and fees, grants and contracts for specific operating activities and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the University are presented in the statement of revenues, expenses and changes in net position as operating activities. The University's equity in current earnings or losses of LANS and LLNS is also an operating transaction.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of the University.

Campus foundations are established to financially support the University. Private gifts to campus foundations are recognized as operating revenues since, in contrast to the University, such contributions are fundamental to the core mission of the campus foundations. Foundation grants to the University are recognized as operating expenses by the foundations. Private gift or capital gift revenues associated with campus foundation grants to the University are recorded by the University as gifts when the foundations transfer the gifts to the University.

Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, state hospital fee grants, Build America Bonds federal interest subsidies, Federal Pell Grants, private gifts for other than capital purposes, investment income, net appreciation in the fair value of investments, interest expense and the loss on the disposal of capital assets.

State capital appropriations, capital gifts and grants and gifts for endowment purposes are classified as other changes in net position.

***Student tuition and fees.*** Substantially, all student tuition and fees provide for the current operations of the University. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers.

The University recognizes scholarship allowances as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center and other fees, and the amount that is paid by the student and third parties on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances are netted against student tuition and fees in the statement of revenues, expenses and changes in net position for the years ended June 30 are as follows:

*(in thousands of dollars)*

| | 2015 | 2014 |
|---|---|---|
| Student tuition and fees | $1,187,999 | $1,075,948 |
| Auxiliary enterprises | 217,137 | 205,340 |
| Other operating revenues | 30,956 | 28,836 |
| **Scholarship allowances** | **$1,436,092** | **$1,310,124** |

***State appropriations.*** The state of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses for educational or other specific operating purposes are reported as operating expenses. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue under other changes in net position when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant operating revenue.

***Grant and contract revenue.*** The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with the University's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2015, the facilities and administrative cost recovery totaled $993.5 million, $720.3 million from federally sponsored programs and $273.2 million from other sponsors. For the year ended June 30, 2014, the facilities and administrative cost recovery totaled $982.5 million, $712.6 million from federally sponsored programs and $269.9 million from other sponsors.

***Medical center revenue.*** Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payors, including Medicare, Medi-Cal and others, for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement, or as additional information becomes available.

***Pension obligations.*** The University records pension obligations equal to the net pension liability for its defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position of the defined benefit plans has been measured consistent with the accounting policies used by the plans. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Both current employees and retirees at LBNL participate in UCRP. The University makes contributions to UCRP for LBNL employees and is reimbursed by the DOE based upon rates that are identical to those authorized by The Regents for campus and medical center employees. The University also makes contributions to UCRP for LANL and LLNL retirees and terminated vested members, whose benefits were retained in UCRP at the time the joint ventures were formed. The University records a receivable for the net pension liability that is expected to be collected from the DOE. The University deposits funds in UCRP when the DOE makes payments for these contributions. The contributions from the DOE and deposits into UCRP on behalf of DOE are included as DOE laboratory expense and revenue, respectively, in the statement of revenues, expenses and changes in net position.

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

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

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

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

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

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

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

***Compensated absences.*** The University accrues annual leave, including employer-related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

***Endowment spending.*** Under provisions of California law, the Uniform Prudent Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

***Tax exemption.*** The University is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a state institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. UCRS plans are qualified under IRC Section 401(a) and the related trusts are tax-exempt under Section 501(c)(3). The campus foundations are exempt under Section 501(c)(3). CHRCO and its component unit, the Children's Hospital and Research Center Foundation, are exempt under Section 501(c)(3). Income received by UCRHBT is tax-exempt under Section 115(a).

***Use of estimates.*** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

***Reclassifications.*** Certain reclassifications have been made to the 2014 financial information to conform to the 2015 financial statement presentation.

***New accounting pronouncements.*** In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for the University's fiscal year beginning July 15, 2015. This Statement establishes standards for accounting and financial reporting for fair value measurements. The Statement requires investments to be measured at fair value and permits the use of net asset value as the fair value when an investment does not have a readily determinable fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement No. 72 also requires certain disclosures related to all fair value measurements. The University is evaluating the effect that Statement No. 72 will have on its financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for the University's fiscal year beginning July 1, 2015. This Statement establishes requirements for those pensions and pension plans that were not covered by Statements 67 and 68, specifically those not administered through a trust meeting specified criteria. The University is evaluating the effect that Statement 73 will have on its financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the University's fiscal year beginning July 1, 2016. This Statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires note disclosures and required supplementary information (RSI) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Additionally, Statement 74 sets forth note disclosure requirements for defined contribution OPEB plans. Statement 74 will affect the information presented in the footnotes to the financial statements and required supplementary information for UCRHBT. The University is evaluating the effect that Statement 74 will have on its financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2017. This Statement revises existing standards for measuring and reporting retiree health benefits provided by the University to its employees. This Statement requires recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefit liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefit liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. The Statement requires that most changes in the net retiree health benefit liability be included in retiree health benefit expense in the period of change. As of June 30, 2015, the University reported a retiree health benefit obligation of $9.4 billion. Under Statement No. 75, the University's OPEB obligation is expected to increase. The University is evaluating the effect that Statement 75 will have on its financial statements.

In June 2015, the GASB issued Statement No. 76, T*he Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the University's fiscal year beginning July 1, 2015. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The University is evaluating the effect that Statement 76 will have on its financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, effective for the University's fiscal year beginning July 1, 2016. This Statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. The purpose of this Statement is to increase transparency in regards to tax abatements governments enter into and make the impact of these agreements more apparent to users of the financial statements. The University is evaluating the effect that Statement 77 will have on its financial statements.

## 1. CASH AND CASH EQUIVALENTS

The University maintains centralized management for substantially all of its cash and cash equivalents. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

Under University policy, deposits are only held at financial institutions that maintain an issuer rating on long-term debt of A3 or higher by Moody's, A- or higher by Standard & Poor's or an Asset Peer Group rating of 65 or higher as defined by Sheshunoff Bank Rating Reports. In 2012, ratings for one of the University's banks were lowered below these thresholds. The University approved an exception for this institution and continues to monitor the institution's financial condition. At June 30, 2015 and 2014, the carrying amount of the University's demand deposits, generally held in five nationally recognized banking institutions, was $135.7 million and $140.4, respectively, compared to bank balances of $93.2 million and $110.3, respectively. Deposits in transit and cash awaiting investment are the primary differences. The University's deposits are uninsured and uncollateralized.

The University does not have significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balances required to support research groups and education abroad programs in foreign countries was $7.1 million at June 30, 2015 and $4.2 million at June 30, 2014.

The carrying amount of the discretely presented component units' cash and cash equivalents at June 30, 2015 and 2014 was $221.5 million and $182.3, respectively, compared to bank balances of $127.5 million and $142.6 million, respectively. Deposits in transit and cash awaiting investment are the primary differences. Included in bank balances are deposits in the University's Short Term Investment Pool of $29.5 million and $28.7 at June 30, 2015 and 2014 respectively, with the remaining uncollateralized bank balances insured by the Federal Deposit Insurance Corporation (FDIC). Uncollateralized bank balances include $5.0 million and $2.7 million in excess of the FDIC limits at June 30, 2015 and 2014, respectively. The discretely presented component units do not have exposure to foreign currency risk in their cash and cash equivalents.

## 2. INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of the University's, UCRS' and UCRHBT's investments and establishes an investment policy, which is carried out by the Chief Investment Officer. These investments are associated with the Short Term Investment Pool (STIP), Total Return Investment Pool (TRIP), General Endowment Pool (GEP), UCRS, UCRHBT and other investment pools managed by the Chief Investment Officer, or are separately invested. Pursuant to The Regents' policies on campus foundations, the Board of Trustees for each campus foundation may determine that all or a portion of their investments will be managed by the Chief Investment Officer. Asset allocation guidelines are provided to the campus foundations by the Committee on Investments of The Regents.

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

Investments authorized by The Regents for STIP include fixed-income securities with a maximum maturity of five and one-half years. In addition, for STIP, The Regents has also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms of up to 40 years.

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

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

Other investment pools primarily facilitate annuity and life income arrangements. Separate investments are those that cannot be pooled due to investment restrictions or income requirements.

Investments authorized by The Regents for GEP, UCRS, other investment pools and separate investments include equity securities, fixed-income securities and certain other asset classes. The equity portion of the investment portfolios include both domestic and foreign common and preferred stocks which may be included in actively or passively managed strategies, along with exposure to private equities. The University's investment portfolios may include foreign currency denominated equity securities. The fixed-income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed-income investment guidelines permit the use of futures and options on fixed-income instruments in the ongoing management of the portfolios. Real estate investments are authorized for all pools except for STIP. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for all pools except for STIP.

Derivative instruments, including futures, forward contracts, options and swap contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. Derivatives are not used for speculative purposes.

The Regents has also authorized certain employee account balances in defined contribution plans included as part of UCRS' investments to be invested in mutual funds. The participants' interests in mutual funds is not managed by the Chief Investment Officer and totaled $4.9 billion and $5.0 billion at June 30, 2015 and 2014, respectively.

Investments authorized by The Regents for the UCRHBT are restricted to a portfolio of high-quality money market instruments in a commingled fund that is managed externally. The average credit quality of the portfolio is A-1/P-1 with an average maturity of 24 days and 41 days at June 30, 2015 and 2014, respectively. The fair value of UCRHBT's investment in this portfolio was $24.2 million and $37.1 million at June 30, 2015 and 2014, respectively.

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

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| *Equity securities:* | | | | | | |
| Domestic | $ 1,812,120 | $ 1,996,677 | $ 270,821 | $ 266,321 | $ 14,935,130 | $ 15,013,705 |
| Foreign | 1,505,925 | 1,661,853 | 21,843 | 20,507 | 9,897,297 | 9,105,760 |
| **Equity securities** | **3,318,045** | **3,658,530** | **292,664** | **286,828** | **24,832,427** | **24,119,465** |
| *Fixed- or variable-income securities:* | | | | | | |
| U.S. government guaranteed: | | | | | | |
| U.S. Treasury bills, notes and bonds | 392,590 | 673,558 | 212,168 | 217,439 | 2,283,017 | 2,602,611 |
| U.S. Treasury strips | 81,403 | 90,350 | 188 | 172 | 637,914 | 562,694 |
| U.S. TIPS | 256,545 | 154,120 | | | 3,398,395 | 3,484,007 |
| U.S. government-backed securities | | | 939 | 939 | 10,330 | 11,288 |
| U.S. government-backed-asset-backed securities | | | 1,071 | 710 | | |
| **U.S. government guaranteed** | **730,538** | **918,028** | **214,366** | **219,260** | **6,329,656** | **6,660,600** |
| Other U.S. dollar denominated: | | | | | | |
| Corporate bonds | 5,512,051 | 5,500,224 | 65,632 | 85,929 | 3,475,411 | 3,070,552 |
| Commercial paper | 4,266,669 | 1,932,764 | | | | |
| U.S. agencies | 1,466,085 | 1,058,009 | 4,542 | 3,999 | 3,084,590 | 2,886,644 |
| U.S. agencies-asset-backed securities | 483,166 | 88,096 | 81,738 | 80,374 | 2,441,742 | 2,258,922 |
| Corporate-asset-backed securities | 93,711 | 35,014 | 58,158 | 90,562 | 1,263,608 | 1,119,923 |
| Supranational/foreign | 1,800,495 | 1,906,414 | 9,608 | 12,005 | 1,786,297 | 1,754,917 |
| Other | 12,088 | 12,740 | 4,974 | 10,358 | 24,633 | 24,846 |
| **Other U.S. dollar denominated** | **13,634,265** | **10,533,261** | **224,652** | **283,227** | **12,076,281** | **11,115,804** |
| Foreign currency denominated: | | | | | | |
| Corporate | 1,278 | 2,174 | | | 10,717 | 17,840 |
| **Foreign currency denominated** | **1,278** | **2,174** | | | **10,717** | **17,840** |
| *Commingled funds:* | | | | | | |
| Absolute return funds | 2,905,174 | 3,094,059 | 1,922,649 | 1,618,057 | 3,400,328 | 3,457,058 |
| Non-U.S. equity funds | 1,879,085 | 1,976,805 | 918,189 | 943,892 | 6,734,853 | 6,475,644 |
| Private equity | 780,704 | 918,186 | 515,813 | 501,079 | 3,011,615 | 3,791,134 |
| Money market funds | 1,207,108 | 692,512 | 651,864 | 583,660 | 5,510,922 | 3,768,742 |
| U.S. equity funds | 975,865 | 849,020 | 634,332 | 647,610 | 3,640,995 | 3,118,198 |
| Real estate investment trusts | | 290,589 | 57,772 | 58,479 | 296,793 | 451,697 |
| Real assets | 200,646 | 240,773 | | | 1,087,780 | 1,377,695 |
| U.S. bond funds | 65,704 | 188,223 | 125,598 | 115,058 | 1,286,633 | 1,126,897 |
| Non-U.S. bond funds | 23,984 | 28,415 | 71,521 | 57,683 | 133,018 | 158,339 |
| Balanced funds | | | 1,072,382 | 1,065,668 | | |
| **Commingled funds** | **8,038,270** | **8,278,582** | **5,970,120** | **5,591,186** | **25,102,937** | **23,725,404** |
| Investment derivatives | 9,014 | 13,044 | (5,185) | (3,369) | 26,981 | 41,036 |
| Publicly traded real estate investment trusts | | 342,674 | | 1,218 | | 104,867 |
| Mortgage loans | 223,997 | 133,556 | | 91 | | |
| Insurance contracts | | | | | 17,811 | 119,797 |
| Real estate | 903,191 | 653,449 | 261,522 | 127,163 | 3,198,797 | 2,842,791 |
| Other investments | 12,890 | 13,145 | 200,387 | 198,766 | | |
| Campus foundations' investments with the University | (1,336,810) | (1,352,725) | | | | |
| UCRS investment in STIP | (3,245,531) | (1,652,665) | | | | |
| **Total investments** | **22,289,147** | **21,541,053** | **7,158,526** | **6,704,370** | **$71,595,607** | **$68,747,604** |
| Less: Current portion | (6,190,287) | (3,334,675) | (550,895) | (473,756) | | |
| **Noncurrent portion** | **$16,098,860** | **$18,206,378** | **$6,607,631** | **$6,230,614** | | |

## Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates. Alternative investment strategies and their underlying assets and rights are subject to an array of economic and market vagaries that can limit or erode value.

### *Credit Risk*

Fixed-income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond and, ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed-income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk.

Asset-backed securities are debt obligations that represent claims to the cash flows from pools of commercial, mortgage, credit card or student loans. Mortgage-backed securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. government. Effective September 2008, Fannie Mae and Freddie Mac were placed under the conservatorship of the Federal Housing Finance Agency. At the same time, the U.S. Treasury put in place a set of financing agreements to ensure Fannie Mae and Freddie Mac have the ability to fulfill their obligations to holders of bonds that they have issued or guaranteed.

The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark (the benchmark for STIP is the the two-year Treasury). No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of STIP must be A or better and commercial paper must be rated at least A-1, P-1 or F-1.

The University recognizes that credit risk is appropriate in balanced investment pools such as TRIP, UCRS and GEP by virtue of the benchmarks chosen for the fixed-income portion of those pools.

Fixed-income benchmarks for TRIP include the Barclays Capital Aggregate Credit Index, the JP Morgan Emerging Markets Bond Index Global Diversified, the Merrill Lynch High-Yield Cash Pay Index and the Barclays Capital Aggregate Government Index. The TRIP fixed-income benchmark is comprised of 72.5 percent high grade corporate bonds and government bonds, and 27.5 percent below investment grade securities, all of which carry some degree of credit risk.

The core fixed-income benchmark for UCRS and GEP, Barclays Capital U.S. Aggregate Bond Index, is comprised of 23.0 percent high grade corporate bonds and 33.0 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 44.0 percent is government-issued bonds.

Credit risk in TRIP, UCRS and GEP is managed primarily by diversifying across issuers. In addition, portfolio guidelines for UCRS and GEP mandate that no more than 10 percent of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for both UCRP and GEP allows for dedicated allocations to non-investment grade and emerging market bonds, an investment which entails credit, default and/or sovereign risk.

The credit risk profile for fixed- or variable-income securities at June 30 is as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| *Fixed- or Variable-income securities:* | | | | | | |
| U.S. government guaranteed | $ 730,538 | $ 918,028 | $214,366 | $219,260 | $6,329,656 | $6,660,600 |
| Other U.S. dollar denominated: | | | | | | |
| AAA | 1,390,053 | 1,262,960 | 20,991 | 49,549 | 6,495,587 | 6,017,280 |
| AA | 1,451,758 | 1,068,822 | 90,908 | 99,622 | 230,988 | 261,055 |
| A | 2,794,979 | 3,047,350 | 17,111 | 35,412 | 1,095,458 | 922,851 |
| BBB | 2,825,348 | 2,462,057 | 41,335 | 37,891 | 2,003,785 | 1,855,949 |
| BB | 547,555 | 438,244 | 10,518 | 9,474 | 1,053,699 | 937,227 |
| B | 249,337 | 221,338 | 3,304 | 1,680 | 677,350 | 668,780 |
| CC or below | 73,589 | 82,203 | 26,691 | 29,404 | 370,640 | 424,520 |
| A-1 / P-1/ F-1 | 4,266,668 | 1,932,764 | | | | |
| Not rated | 34,978 | 17,523 | 13,794 | 20,195 | 148,774 | 28,142 |
| Foreign currency denominated: | | | | | | |
| BB | 50 | 20 | | | 422 | 166 |
| B | 860 | 1,153 | | | 7,209 | 9,463 |
| C or below | 368 | 1,001 | | | 3,086 | 8,211 |
| *Investment Derivatives:* | | | | | | |
| AAA | (10) | (3,615) | | | | |
| *Commingled funds:* | | | | | | |
| U.S. bond funds: Not rated | 65,704 | 188,223 | 125,598 | 115,058 | 1,286,633 | 1,126,897 |
| Non-U.S. bond funds: Not rated | 23,984 | 28,415 | 71,521 | 57,683 | 133,018 | 158,339 |
| Money market funds: Not rated | 1,207,108 | 692,512 | 651,864 | 583,660 | 5,510,922 | 3,768,742 |
| *Mortgage loans: Not rated* | 223,997 | 133,556 | | 91 | | |
| *Insurance contracts: Not rated* | | | | | 17,811 | 119,797 |

## *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

Substantially all of the University's, discretely presented component units' and UCRS' securities are registered in the University's name by the custodial bank as an agent for the University. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk for such investments is remote.

## *Concentration of Credit Risk*

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

The U.S. and non-U.S. equity portions of the University and UCRS portfolios may be managed either passively or actively. For the portions managed passively, the concentration of individual securities are similar to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the University considers that passive management results in an absence of concentration of credit risk. For the portions managed actively, asset class guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class, in the aggregate, will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

Investment guidelines addressing concentration of credit risk related to the investment grade fixed-income portion of the University and UCRS portfolios include a limit of no more than 3 percent of each portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to STIP. For high-yield and emerging market debt, the corresponding limit is 5 percent.

Each discretely presented component unit may have its own individual investment policy designed to limit exposure to a concentration of credit risk. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools, other investment pools or investments that are invested by the University for the discretely presented component units are not subject to concentration of credit risk. Most of the discretely presented component units that hold other types of investments have policies to limit the exposure to an individual issuer.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of investments held at June 30 are as follows:

*(in thousands of dollars)*

| | DISCRETELY PRESENTED COMPONENT UNITS | |
|---|---|---|
| | **2015** | **2014** |
| Silchester International Value Equity Trust | | $56,700 |
| Bayside Partners, LP | $88,747 | |
| iShares MSCI EAFE ETF | 76,556 | |

### *Interest Rate Risk*

Interest rate risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100-basis-point (1-percentage-point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the liquidity demands of the investors. The nature and maturity of individual securities in STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

Portfolio guidelines for the fixed-income portion of TRIP limit weighted average effective duration to the effective duration of the benchmarks (Barclays Capital Aggregate Credit Index, JP Morgan Emerging Markets Bond Index Global Diversified, the Merrill Lynch High-Yield Cash Pay Index and Barclays Capital Aggregate Government Index), plus or minus 10 percent. Similarly, portfolio guidelines for the fixed-income portion of UCRS and GEP limit weighted average effective duration to the effective duration of their benchmarks (Barclay's Capital US Aggregate Index), plus or minus 20 percent. These portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The effective durations for fixed- or variable-income securities at June 30 are as follows:

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| *Fixed- or variable-income securities:* | | | | | | |
| U.S. government guaranteed: | | | | | | |
| U.S. Treasury bills, notes and bonds | 1.0 | 1.4 | 3.1 | 2.9 | 1.8 | 1.5 |
| U.S. Treasury strips | 11.5 | 8.8 | | | 6.9 | 8.3 |
| U.S. TIPS | 4.8 | 6.7 | | | 5.0 | 5.9 |
| U.S. government-backed securities | | | 3.0 | 2.9 | 7.1 | 4.4 |
| U.S. government-backed-asset-backed securities | | | 7.0 | 3.4 | | |
| Other U.S. dollar denominated: | | | | | | |
| Corporate bonds | 3.0 | 3.2 | 5.3 | 4.2 | 5.8 | 5.0 |
| U.S. agencies | 2.3 | 2.1 | 5.3 | 4.2 | 2.2 | 2.5 |
| U.S. agencies-asset-backed securities | 4.6 | 3.7 | 4.4 | 3.6 | 3.9 | 4.1 |
| Corporate-asset-backed securities | 7.0 | 2.0 | 0.6 | 0.9 | 3.0 | 2.8 |
| Supranational/foreign | 3.9 | 4.3 | 0.2 | 1.7 | 6.1 | 6.2 |
| Other | 16.7 | 17.5 | 6.8 | 6.3 | 16.0 | 16.7 |
| Foreign currency denominated: | | | | | | |
| Corporate | 3.9 | 1.5 | | | 3.9 | 1.5 |
| *Commingled funds:* | | | | | | |
| U.S. bond funds* | 5.4 | 4.4 | 4.4 | 5.0 | 5.6 | 5.3 |
| Non-U.S. bond funds | 4.8 | | 6.4 | 5.3 | 4.8 | |
| Money market funds** | | | 1.5 | 2.2 | | 2.2 |
| *Investment derivatives* | | 0.9 | | | | |

** University considers the modified durations for commingled funds*
*** Foundation and UCRS investment in STIP*

The University considers the effective durations for commercial paper, mortgage loans, insurance contracts and money market funds to be zero. The terms of the mortgage loans include variable interest rates. Insurance contracts can be liquidated without loss of principal and money market funds consist of underlying securities that are of a short-term, liquid nature.

Investments also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities and callable bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the effective durations of these securities may be low.

At June 30, the fair values of such investments are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Mortgage-backed securities | $ 512,740 | $ 93,052 | $ 71,665 | $ 53,782 | $2,341,520 | $ 2,613,162 |
| Collateralized mortgage obligations | | | 41,112 | 49,728 | 266,693 | 214,735 |
| Other asset-backed securities | 51,646 | 30,186 | 26,804 | 40,386 | 268,415 | 490,351 |
| Variable-rate securities | 57,508 | 52,608 | | | 877,879 | 131,005 |
| Callable bonds | 2,034,857 | 1,599,256 | 17,531 | 12,740 | 4,081,880 | 3,487,903 |
| Convertible bonds | | 706 | | | | 5,413 |
| **Total** | **$2,656,751** | **$1,775,808** | **$157,112** | **$156,636** | **$7,836,387** | **$ 6,942,569** |

***Mortgage-Backed Securities.*** These securities are issued primarily by Fannie Mae, Ginnie Mae and Freddie Mac, and various commercial entities and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

***Collateralized Mortgage Obligations.*** Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In rising interest rate environments, the opposite is true.

***Other Asset-Backed Securities.*** Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.

***Variable-Rate Securities.*** These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.

***Callable Bonds.*** Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The University must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, the effective durations for these securities are as follows:

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Mortgage-backed securities | 5.1 | 3.8 | 5.2 | 2.4 | 4.4 | 4.1 |
| Collateralized mortgage obligations | | | 1.6 | 1.1 | 3.0 | 3.1 |
| Other asset-backed securities | 3.8 | 1.7 | 2.7 | 1.3 | 2.5 | 1.5 |
| Variable-rate securities | 2.5 | 4.5 | | | 1.7 | 4.8 |
| Callable bonds | 3.7 | 3.7 | 0.3 | 2.4 | 3.6 | 3.3 |
| Convertible bonds | | 6.7 | | 2.3 | | 7.0 |

### *Foreign Currency Risk*

The University's strategic asset allocation policy for TRIP, UCRS and GEP includes allocations to non-U.S. equities and non-dollar denominated bonds. The benchmarks for these investments are not hedged; therefore foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed-income securities also allow exposure to non-U.S. dollar denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

At June 30, the foreign currency risk expressed in U.S. dollars, organized by currency denomination and investment type, are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| *Equity securities:* | | | | | | |
| Euro | $ 430,087 | $ 468,620 | $ 1,072 | | $ 2,922,920 | $ 2,674,506 |
| British pound | 307,390 | 298,175 | 2,418 | $ 1,858 | 2,032,925 | 1,769,937 |
| Japanese yen | 284,131 | 284,806 | 816 | | 1,774,562 | 1,577,457 |
| Canadian dollar | 77,290 | 104,600 | 578 | 546 | 521,044 | 651,190 |
| Swiss franc | 149,954 | 128,303 | 1,253 | 4,326 | 1,015,032 | 792,002 |
| Australian dollar | 61,046 | 79,876 | 245 | | 412,077 | 499,441 |
| Hong Kong dollar | 52,065 | 103,754 | | | 339,843 | 314,471 |
| Swedish krona | 39,205 | 41,289 | | | 273,990 | 239,421 |
| Singapore dollar | 19,839 | 33,735 | | | 135,218 | 165,002 |
| Danish krone | 26,474 | 16,949 | | | 184,198 | 104,944 |
| Norwegian krone | 10,400 | 16,561 | | | 72,313 | 82,108 |
| South Korean won | 22,835 | 11,676 | 14,135 | | 82,779 | 42,059 |
| Brazilian real | 3,600 | 21,860 | | | 16,531 | 44,096 |
| Other | 21,609 | 51,649 | 1,326 | 13,777 | 113,865 | 149,126 |
| **Subtotal** | **1,505,925** | **1,661,853** | **21,843** | **20,507** | **9,897,297** | **9,105,760** |
| *Fixed-income securities:* | | | | | | |
| Euro | 577 | 1,772 | | | 4,928 | 14,168 |
| Other | 701 | 402 | | | 5,789 | 3,672 |
| **Subtotal** | **1,278** | **2,174** | | | **10,717** | **17,840** |
| *Commingled funds (various currency denominations):* | | | | | | |
| Non-U.S. equity funds | 1,879,085 | 1,976,805 | 616,493 | 687,937 | 6,734,853 | 6,475,644 |
| Balanced funds | | | 238,309 | 229,473 | | |
| U.S. bond funds | | | 7,855 | 8,788 | | |
| Non-U.S. bond funds | 23,984 | 28,415 | 54,953 | 43,788 | 133,018 | 158,339 |
| Real estate investment trusts | | | 13,039 | 10,889 | | |
| Absolute Return funds | | | 54,635 | 64,971 | | |
| **Subtotal** | **1,903,069** | **2,005,220** | **985,284** | **1,045,846** | **6,867,871** | **6,633,983** |
| *Investment derivatives:* | | | | | | |
| Australian dollar | 18 | (14) | | | 96 | (359) |
| Canadian dollar | (20) | 175 | | | (108) | 278 |
| British pound | (295) | 112 | | | (2,092) | (29) |
| Japanese yen | (100) | 319 | | | (708) | 809 |
| Hong Kong dollar | (23) | 165 | | | (121) | 143 |
| Other | 146 | (101) | | | 1,007 | (33) |
| **Subtotal** | **(274)** | **656** | | | **(1,926)** | **809** |
| *Private equity:* | | | | | | |
| Euro | 15,419 | 18,602 | 17,816 | 10,468 | 87,372 | 105,329 |
| Other | 730 | 3,491 | 8,817 | 3,697 | 4,136 | 19,780 |
| *Publicly traded real estate investment trusts:* | | | | | | |
| Australian dollar | | 44,190 | | | | 13,489 |
| Euro | | 22,680 | | | | 6,924 |
| British pound | | 18,558 | | | | 5,665 |
| Japanese yen | | 10,279 | | | | 3,138 |
| South African rand | | 8,250 | | | | 2,519 |
| Singapore dollar | | 6,580 | | | | 2,009 |
| Canadian dollar | | 5,046 | | | | |
| Mexican peso | | 4,209 | | | | 1,285 |
| Other | | 5,224 | | | | 3,135 |
| **Subtotal** | **16,149** | **147,109** | **26,633** | **14,165** | **91,508** | **163,273** |
| **Total exposure to foreign currency risk** | **$3,426,147** | **$3,817,012** | **$1,033,760** | **$1,080,518** | **$16,865,467** | **$15,921,665** |

### *Liquidity Risks*

Alternative investments are subject to liquidity risk. Alternative investments include hedge funds, limited partnerships, private equity, venture capital funds, real estate and real assets funds. Additionally, certain asset-backed securities are thinly traded and subject to liquidity risk.

Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or offshore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. Managers of these investments employ a wide variety of strategies and have areas of concentration including absolute return, venture capital or early stage investing, private equity or later stage investing and the underlying investments may be leveraged to enhance the total investment return. Each asset class has guidelines and policies regarding the use of leverage. Such underlying investments may include financial assets such as marketable securities, non-marketable securities, derivatives and other synthetic and structured investments as well as tangible and intangible assets.

Alternative investments do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risks generally associated with equities and fixed-income instruments with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests.

The University's portfolio includes the following investments subject to liquidity risk as of June 30:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Absolute return funds | $2,905,174 | $3,094,059 | $1,922,649 | $ 1,618,057 | $ 3,400,328 | $ 3,457,058 |
| Private equity funds | 780,704 | 918,186 | 515,813 | 501,079 | 3,011,615 | 3,791,134 |
| Real estate funds | 903,191 | 653,449 | 261,522 | 127,163 | 3,198,797 | 2,842,791 |
| Real assets funds | 200,646 | 240,773 | | | 1,087,780 | 1,377,695 |
| **Total** | **$4,789,715** | **$4,906,467** | **$2,699,984** | **$2,246,299** | **$10,698,520** | **$11,468,678** |

## The University's Investment Pools

The composition of the University's investments at June 30, 2015, by investment pool, are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | | | |
|---|---|---|---|---|---|
| | STIP | TRIP | GEP | OTHER | TOTAL |
| *Equity securities:* | | | | | |
| Domestic | | $1,047,989 | $ 663,974 | $100,157 | $ 1,812,120 |
| Foreign | | 589,834 | 877,691 | 38,400 | 1,505,925 |
| *Fixed- or variable-income securities:* | | | | | |
| U.S. government guaranteed | $ 231,794 | 207,998 | 282,575 | 8,171 | 730,538 |
| Other U.S. dollar denominated | 10,199,934 | 2,829,970 | 579,787 | 24,574 | 13,634,265 |
| Foreign currency denominated | | | 1,278 | | 1,278 |
| Commingled funds | 751 | 2,705,588 | 4,294,526 | 56,055 | 7,056,920 |
| Investment derivatives | | 6,905 | 2,131 | (22) | 9,014 |
| Private equity | | | 768,366 | 12,338 | 780,704 |
| Mortgage loans | 26,690 | | | 197,307 | 223,997 |
| Real assets | | | 200,646 | | 200,646 |
| Real estate | | 156,580 | 716,851 | 29,760 | 903,191 |
| Other investments | | | | 12,890 | 12,890 |
| **Subtotal** | **10,459,169** | **7,544,864** | **8,387,825** | **479,630** | **26,871,488** |
| Discretely presented component units' investments with the University | (547,738) | (19,844) | (641,751) | (127,477) | (1,336,810) |
| UCRS investment in STIP | (3,245,531) | | | | (3,245,531) |
| **Total investments** | **$6,665,900** | **$7,525,020** | **$7,746,074** | **$352,153** | **$22,289,147** |

The composition of the University's investments at June 30, 2014, by investment pool, are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | | | |
|---|---|---|---|---|---|
| | STIP | TRIP | GEP | OTHER | TOTAL |
| *Equity securities:* | | | | | |
| Domestic | | $ 1,057,374 | $ 841,524 | $ 97,779 | $ 1,996,677 |
| Foreign | | 809,780 | 817,068 | 35,005 | 1,661,853 |
| *Fixed- or variable-income securities:* | | | | | |
| U.S. government guaranteed | $ 326,297 | 344,209 | 238,629 | 8,893 | 918,028 |
| Other U.S. dollar denominated | 7,919,885 | 2,016,480 | 572,019 | 24,877 | 10,533,261 |
| Foreign currency denominated | | | 2,174 | | 2,174 |
| Commingled funds | 1,690 | 2,997,569 | 4,055,380 | 64,984 | 7,119,623 |
| Investment derivatives | | 9,813 | 6,828 | (3,597) | 13,044 |
| Publicly traded real estate investment trusts | | 328,320 | 14,354 | | 342,674 |
| Private equity | | 791 | 899,617 | 17,778 | 918,186 |
| Mortgage loans | 76,888 | | | 56,668 | 133,556 |
| Real assets | | | 240,773 | | 240,773 |
| Real estate | | | 625,668 | 27,781 | 653,449 |
| Other investments | | | | 13,145 | 13,145 |
| **Subtotal** | **8,324,760** | **7,564,336** | **8,314,034** | **343,313** | **24,546,443** |
| Discretely presented component units' investments with the University | (554,053) | (10,109) | (648,621) | (139,942) | (1,352,725) |
| UCRS investment in STIP | (1,652,665) | | | | (1,652,665) |
| **Total investments** | **$6,118,042** | **$7,554,227** | **$7,665,413** | **$203,371** | **$21,541,053** |

The total investment return based upon unit values, representing the combined income plus net appreciation or depreciation in the fair value of investments, for the years ended June 30, 2015 and 2014, were 2.6 and 14.7 percent, respectively for TRIP, 7.2 and 19.0 percent, respectively for GEP and 4.5 and 16.7 percent, respectively for UCRS. The investment return for STIP distributed to participants, representing combined income and realized gains or losses, during the same periods, was 1.4 and 1.6 percent, respectively. Other investments consist of numerous, small portfolios of investments or individual securities, each with its own individual rate of return.

## Related Party Relationships with the University

UCRS and the discretely presented component units may invest available cash in STIP. Shares are purchased or redeemed in STIP at a constant value of $1 per share. Actual income earned, including any realized gains or losses on the sale of STIP investments, is allocated to UCRS and the discretely presented component units based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in STIP are recorded by the University as the manager of the pool. The net asset value for STIP is held at a constant value of $1 and is not adjusted for unrealized gains and losses associated with the fluctuation in the fair value of investments included in STIP.

The discretely presented component units may purchase or redeem shares in GEP, TRIP or other investment pools at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to the discretely presented component units based upon the number of shares held.

## Discretely Presented Component Units

The discretely presented component units' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are excluded from the University's statement of net position and included in the discretely presented component units' statement of net position. Under the accounting policies elected by each discretely presented component unit, certain component units classify all or a portion of their investment in STIP and TRIP as cash and cash equivalents, rather than investments. Substantially, all of the discretely presented component units' investments managed by the Chief Investment Officer are categorized as commingled funds or commingled money market funds by the discretely presented component units in the composition of investments.

The fair value of the discretely presented component units' cash and cash equivalents and investments that are invested with the University, by investment pool at June 30 are as follows:

| (in thousands of dollars) | 2015 | 2014 |
|---|---|---|
| STIP | $ 547,738 | $ 554,053 |
| TRIP | 19,844 | 10,109 |
| GEP | 641,751 | 648,621 |
| Other investment pools | 127,477 | 139,942 |
| **Discretely presented component units' investments with the University** | **1,336,810** | **1,352,725** |
| Classified as cash and cash equivalents by discretely presented component units | (28,279) | (27,776) |
| **Classified as investments by discretely presently component units** | **$1,308,531** | **$1,324,949** |

Endowment investment income in the University's statement of revenues, expenses and changes in net position is net of income earned by, and distributed to, the discretely presented component units totaling $18.1 million and $17.6 million for the years ended June 30, 2015 and 2014, respectively.

## UCRS

UCRS had $3.2 billion and $1.7 billion invested in STIP at June 30, 2015 and 2014, respectively. These investments are excluded from the University's statement of net position and are included in UCRS' statement of plans' fiduciary net position. They are categorized as commingled money market funds in the composition of investments for UCRS. STIP investment income in the University's statement of revenues, expenses and changes in net position is net of income earned by, and distributed to, UCRS totaling $19.5 million and $23.5 million for the years ended June 30, 2015 and 2014, respectively.

## Agency Relationships with the University

STIP and GEP are external investment pools and include investments on behalf of external organizations that are associated with the University, although not financially accountable to the University. These organizations are not required to invest in these pools. Participants purchase or redeem shares in STIP at a constant value of $1 per share and purchase or redeem shares in GEP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The fair value of these investments in each investment pool and the related liability associated with these organizations that are included in the University's statement of net position at June 30 are as follows:

| (in thousands of dollars) | 2015 | 2014 |
|---|---|---|
| *Short-term investments:* | | |
| STIP | $ 151,041 | $ 84,411 |
| GEP | 236,543 | 216,964 |
| Other investment pools | 17,341 | 17,949 |
| **Total agency assets** | **$404,925** | **$319,324** |
| **Funds held for others** | **$404,925** | **$319,324** |

The composition of the net position at June 30 for STIP and GEP are as follows:

| (in thousands of dollars) | STIP | | GEP | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Investments | $10,459,169 | $ 8,324,760 | $8,387,825 | $8,314,034 |
| Investment of cash collateral | 81,985 | 218,971 | 315,992 | 381,673 |
| Securities lending collateral | (81,986) | (218,916) | (315,992) | (381,576) |
| Other assets (liabilities), net | 1,799,088 | 1,162,560 | 533,537 | (130,747) |
| **Net position** | **$12,258,256** | **$9,487,375** | **$8,921,362** | **$8,183,384** |

Other assets include amounts receivable for pension benefits from the campuses and medical centers of $1.7 billion and $1.1 billion at June 30, 2015 and 2014, respectively.

The changes in net position for STIP and GEP for the years ending June 30 are as follows:

| *(in thousands of dollars)* | STIP | | GEP | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net position, beginning of year | $ 9,487,375 | $10,608,027 | $8,183,384 | $6,999,293 |
| Investment income | 153,964 | 159,607 | 92,263 | 80,525 |
| Net appreciation (depreciation) in fair value of investments | 122,683 | (128,857) | 381,189 | 1,255,060 |
| Transfer to TRIP | (199,252) | (2,226,959) | | |
| Participant contributions (withdrawals), net | 2,693,486 | 1,075,557 | 264,526 | (151,494) |
| **Net position, end of year** | **$12,258,256** | **$ 9,487,375** | **$8,921,362** | **$8,183,384** |

## 3. SECURITIES LENDING

The University and UCRS jointly participate in a securities lending program as a means to augment income. The discretely presented component units' investments that are invested with the University and managed by the Chief Investment Officer are included in the University's investment pools that participate in the securities lending program.

The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral and collateral held for securities lending is determined based upon their equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program.

Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments lent during the period of the loan. Securities loans immediately terminate upon notice by either the University or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Securities collateral cannot be pledged or sold by the University unless the borrower defaults.

Loans of domestic equities and all fixed-income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by lending agents, as agents for the University, in investment pools in the name of the University, with guidelines approved by the University. These investments are shown as investment of cash collateral in the statement of net position. At June 30, 2015 and 2014, the securities in these pools had a weighted average maturity of 17 days and 30 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net position. Securities collateral received from the borrower is held in investment pools by the University's custodial bank.

At June 30, 2015 and 2014, the University had insignificant exposure to borrowers because the amounts the University owed the borrowers were substantially the same as the amounts the borrowers owed the University. The University is indemnified by its lending agents against any losses incurred as a result of borrower default.

The composition of the securities lending programs at June 30 are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **SECURITIES LENT** | | | | | | |
| *For cash collateral:* | | | | | | |
| Equity securities: | | | | | | |
| Domestic | $ 293,784 | $ 403,073 | | | $ 2,009,500 | $ 1,890,525 |
| Foreign | 72,330 | 126,557 | | | 486,710 | 656,426 |
| Fixed-income securities: | | | | | 1,252,787 | |
| U.S. government guaranteed | 64,780 | 67,567 | | | 1,302,171 | 2,112,140 |
| Other U.S. dollar denominated | 361,701 | 642,358 | | | | 1,754,525 |
| Discretely presented component units | (36,838) | (51,249) | $36,838 | $51,249 | | |
| **Lent for cash collateral** | **755,757** | **1,188,306** | **36,838** | **51,249** | **5,051,168** | **6,413,616** |
| *For securities collateral:* | | | | | | |
| Equity securities: | | | | | | |
| Domestic | 194,858 | 188,486 | | | 1,406,557 | 1,209,300 |
| Foreign | 199,333 | 186,121 | | | 1,258,242 | 954,801 |
| Fixed-income securities: | | | | | | |
| U.S. government guaranteed | 99,811 | 117,036 | | | 3,480,076 | 3,694,573 |
| Other U.S. dollar denominated | 75,839 | 12,722 | | | 104,341 | 17,246 |
| **Lent for securities collateral** | **569,841** | **504,365** | | | **6,249,216** | **5,875,920** |
| **Total securities lent** | **$1,325,598** | **$1,692,671** | **$36,838** | **$51,249** | **$11,300,384** | **$12,289,536** |
| **COLLATERAL RECEIVED** | | | | | | |
| Cash | $ 812,088 | $1,269,083 | | | $ 5,177,555 | $ 6,561,614 |
| Discretely presented component units' share | (36,838) | (51,249) | $36,838 | $51,249 | | |
| **Total cash collateral received** | **775,250** | **1,217,834** | **36,838** | **51,249** | **5,177,555** | **6,561,614** |
| Securities | 617,384 | 544,981 | | | 6,770,599 | 6,349,117 |
| **Total collateral received** | **$1,392,634** | **$1,762,815** | **$36,838** | **$51,249** | **$11,948,154** | **$12,910,731** |
| **INVESTMENT OF CASH COLLATERAL** | | | | | | |
| *Fixed-income securities:* | | | | | | |
| Other U.S. dollar denominated: | | | | | | |
| Corporate bonds | $ 104,369 | $ 141,554 | | | $ 665,409 | $ 731,891 |
| Commercial paper | 4,474 | 102,751 | | | 28,526 | 531,262 |
| Repurchase agreements | 334,265 | 380,043 | | | 2,131,138 | 1,964,957 |
| Corporate-asset-backed securities | 176,873 | 280,122 | | | 1,127,664 | 1,448,330 |
| Certificates of deposit/time deposits | 29,149 | 106,966 | | | 185,840 | 553,052 |
| Supranational/foreign | 163,103 | 252,637 | | | 1,039,876 | 1,306,222 |
| Other assets (liabilities), net* | (151) | 5,330 | | | (963) | 27,558 |
| Discretely presented component units' share | (36,838) | (51,249) | $ 36,838 | $51,249 | | |
| **Investment of cash collateral** | **775,244** | **1,218,154** | **36,838** | **51,249** | **$ 5,177,490** | **$ 6,563,272** |
| Less: Current portion | (516,678) | (848,436) | (24,551) | (35,695) | | |
| **Noncurrent portion** | **$ 258,566** | **$ 369,718** | **$12,287** | **$15,554** | | |

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

The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The University receives the net investment income. The securities lending income and fees and rebates for the years ended June 30 are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Securities lending income | $8,215 | $8,237 | $501 | $431 | $44,583 | $47,664 |
| Securities lending fees and rebates | (1,497) | (1,288) | (92) | (68) | (8,065) | (7,454) |
| **Securities lending investment income, net** | **$6,718** | **$6,949** | **$409** | **$363** | **$36,518** | **$40,210** |

## Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed-income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The University's and UCRS' investment policies and other information related to each of these risks are summarized below. Discretely presented component units that participate in a securities lending program may have their own individual investment policies designed to limit the same risks.

### *Credit Risk*

The University's and UCRS' investment policies for the investment of cash collateral maintained in separately managed collateral pools restrict the credit rating of issuers at the time of purchase to no less than A-1, P-1 or F-1 for short-term securities and no less than A2/A for long-term securities. Asset-backed securities must have a rating of AAA at the time of purchase.

The credit risk profile for fixed- or variable-income securities associated with the investment of cash collateral at June 30 are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| *Fixed- or variable-income securities:* | | | | | | |
| Other U.S. dollar denominated: | | | | | | |
| AAA | $183,379 | $285,038 | | | $ 1,169,144 | $1,473,753 |
| AA+ | 23,763 | 24,358 | | | 151,501 | 125,939 |
| AA | 18,034 | 5,346 | | | 114,979 | 27,639 |
| AA- | 112,203 | 192,176 | | | 715,356 | 993,620 |
| A+ | 209,468 | 85,278 | | | 1,335,479 | 440,918 |
| A | 192,525 | 66,443 | | | 1,227,458 | 343,534 |
| A- | 54,829 | | | | 349,569 | |
| A-1 / P-1 / F-1 | 18,032 | 605,434 | | | 114,967 | 3,130,311 |
| Other assets (liabilities), net* : Not rated | (151) | 5,330 | | | (963) | 27,558 |
| Discretely presented component units' share | (36,838) | (51,249) | $36,838 | $51,249 | | |

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

### *Custodial Credit Risk*

Cash collateral received for securities lent is invested in pools by the University's lending agents. The Universitys' and UCRS' securities related to the investment of cash collateral are registered in the University's name by the lending agents. Securities collateral received for securities lent are held in investment pools by the University's lending agents. As a result, custodial credit risk is remote.

### *Concentration of Credit Risk*

The University's and UCRS' investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value at the time of purchase. Discretely presented component units that directly participate in a securities lending program do not have specific investment policies related to concentration of credit risk, although the lending agreements with the agents establish restrictions for the type of investments and minimum credit ratings.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of the total investment of cash collateral held by individual component units at June 30 are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Citibank | | $91,499 | | $473,081 |
| JP Morgan Chase | $43,664 | | $278,385 | |

### *Interest Rate Risk*

The nature of individual securities in the collateral pools allows for the use of weighted average maturity as an effective risk management measure. The University's and UCRS' investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

The weighted average maturity expressed in days for fixed- or variable-income securities associated with the investment of cash collateral at June 30 are as follows:

*(in days)*

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| *Fixed- or variable-income securities:* | | | | |
| Other U.S. dollar denominated: | | | | |
| Corporate bonds | 50 | 37 | 50 | 37 |
| Commercial paper | 1 | 29 | 1 | 29 |
| Repurchase agreements | 1 | 7 | 1 | 7 |
| Corporate-asset-backed securities | 17 | 20 | 17 | 20 |
| Certificates of deposit/time deposits | 30 | 87 | 30 | 87 |
| Supranational/foreign | 28 | 51 | 28 | 51 |

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30, the fair value of investments that are considered to be highly sensitive to changes in interest rates are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Other asset-backed securities | $183,378 | $297,469 | | | $1,169,145 | $1,538,022 |
| Variable-rate investments | 543,651 | 141,555 | | | 3,466,109 | 731,891 |
| Discretely presented component units' share | (33,902) | (17,965) | $33,902 | $17,965 | | |
| **Total** | **$693,127** | **$421,059** | **$33,902** | **$17,965** | **$4,635,254** | **$2,269,913** |

At June 30, 2015 and 2014, the weighted average maturity expressed in days for asset-backed securities was 17 days and 19 days, respectively, and for variable-rate investments was 20 days and 37 days, respectively.

### *Foreign Currency Risk*

The University's and UCRS' investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in separate collateral pools restricts investments to U.S. dollar denominated securities. Therefore, there is no foreign currency risk.

## 4. DERIVATIVE FINANCIAL INSTRUMENTS

The University may use derivatives including futures, forward contracts, options and interest rate swap contracts as a substitute for investment in equity and fixed-income securities, to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments, or to limit its exposure of variable-rate bonds to changes in market interest rates. The Board of Trustees for each campus foundation may also authorize derivatives in its investment policy.

The University enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed-income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the University agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. These contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of revenues, expenses and changes in net position. The settlement amount at the end of each day for each of the contracts, or variation margin, is included in investments and represents the fair value of the contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. Foreign currency exchange contracts are forward contracts used to hedge against foreign currency exchange rate risks on non-U.S. dollar denominated investment securities and to increase or decrease exposure to various foreign currencies.

An option contract gives the University the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the "premium"). The maximum loss to the University is limited to the premium originally paid for covered options. The University initially records premiums paid for the purchase of these options in the statement of net position as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of revenues, expenses and changes in net position.

Rights and warrants provide the holder with the right, but not the obligation, to buy a stock at a predetermined price for a finite period of time. Warrants usually have a longer time period to expiration. The holder of a right or warrant is permitted to buy at a price that may be below the actual market price for that stock. Warrants and rights cease to exist and become worthless if not used by their expiration date.

An interest rate swap is a contractual agreement entered into between the University and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, an interest rate or to currency. A credit default swap is an agreement whereby the seller will compensate the buyer in the event of a loan default. A swaption is an option granting its owner the right but not the obligation to enter into an underlying swap. The University considers its futures, forward contracts, options, credit default swaps, swaptions, rights, warrants and certain interest rate swaps to be investment derivatives.

As a means to lower the University's borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University entered into interest rate swap agreements in connection with certain of its variable-rate Medical Center Pooled Revenue Bonds and General Revenue Bonds. The University has determined that certain of its interest rate swaps are derivative instruments that meet the criteria for an effective hedge. Certain of the interest rate swaps are considered hybrid instruments since, at the time of execution, the fixed rate on each of the swaps was off-market and the University received an up-front payment. As such, these swaps are comprised of a derivative instrument, an at-the-market swap that is an effective hedge, and a companion instrument, a borrowing represented by the up-front payment. The unamortized amount of the borrowing under the companion instruments was $41.0 million and $42.1 million at June 30, 2015 and 2014, respectively.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, categorized by type, and the changes in fair value of such derivatives for the years then ended are as follows:

## University of California

*(in thousands of dollars)*

| | NOTIONAL AMOUNT | | FAIR VALUE–POSITIVE (NEGATIVE) | | | CHANGES IN FAIR VALUE | | |
|---|---|---|---|---|---|---|---|---|
| CATEGORY | 2015 | 2014 | CLASSIFICATION | 2015 | 2014 | CLASSIFICATION | 2015 | 2014 |
| **INVESTMENT DERIVATIVES** | | | | | | | | |
| *Futures contracts:* | | | | | | | | |
| Domestic equity futures: | | | | | | | | |
| Long positions | 1,433 | 705,119 | Investments | $ (6,981) | $ 765 | Net appreciation (depreciation) | $ (6,954) | $148,657 |
| Short positions | (429) | (463) | Investments | (4) | (7) | Net appreciation (depreciation) | | (79) |
| Foreign futures: | | | | | | | | |
| Long positions | 317 | 68,905 | Investments | (150) | 91 | Net appreciation (depreciation) | 50,457 | 10,484 |
| Short positions | (62) | | Investments | (1) | | Net appreciation (depreciation) | (21) | |
| **Futures contracts, net** | | | | **(7,136)** | **849** | | **43,482** | **159,062** |
| *Foreign currency exchange contracts, net*:* | | | | | | | | |
| Long positions | 531,262 | 1,021,285 | Investments | 26 | 456 | Net appreciation (depreciation) | 2,648 | (1,921) |
| Short positions | (4,983,512) | (28,599) | Investments | (155) | (158) | Net appreciation (depreciation) | (10,234) | (8,435) |
| **Futures currency exchange contracts, net** | | | | **(129)** | **298** | | **(7,586)** | **(10,356)** |
| *Swaps:* | | | | | | | | |
| Credit default swaps | | | Investments | | | Net appreciation (depreciation) | 7 | |
| Fixed interest rate swaps | 500,453 | 500,000 | Investments | (18) | (3,505) | Net appreciation (depreciation) | 3,597 | 2,066 |
| Total return swaps equity | | 6,382 | Investments | | (5) | Net appreciation (depreciation) | (61) | (66) |
| **Swaps, net** | | | | **(18)** | **(3,510)** | | **3,543** | **2,000** |
| Stock rights/warrants | 1,498 | 1,772 | Investments | 16,297 | 11,353 | Net appreciation (depreciation) | 2,601 | 2,565 |
| Options/swaptions | | 11,046 | Investments | | 4,054 | Net appreciation (depreciation) | 797 | 1,923 |
| **Total investment derivatives** | | | | **$ 9,014** | **$13,044** | | **$42,837** | **$155,194** |
| **CASH FLOW HEDGES** | | | | | | | | |
| *Effective interest rate swaps:* | | | | | | | | |
| Pay fixed, receive variable | 848,885 | 851,995 | Other assets (liabilities) | $(91,093) | $(75,240) | Deferred (inflows) outflows | $ (15,853) | $ (29,481) |

**Notional amount reported in local currency.*

## University of California Discretely Presented Component Units

*(in thousands of dollars)*

| CATEGORY | NOTIONAL AMOUNT 2015 | NOTIONAL AMOUNT 2014 | FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION | FAIR VALUE 2015 | FAIR VALUE 2014 | CHANGES IN FAIR VALUE CLASSIFICATION | CHANGES 2015 | CHANGES 2014 |
|---|---|---|---|---|---|---|---|---|
| **INVESTMENT DERIVATIVES** | | | | | | | | |
| *Futures contracts:* | | | | | | | | |
| Domestic commodity futures: | | | | | | | | |
| Short positions | (3,800) | (2,800) | Investments | $(5,185) | $(3,603) | Net appreciation (depreciation) | $ (64) | $ (8) |
| Foreign equity futures: | | | | | | | | |
| Long positions | | | Investments | | | Net appreciation (depreciation) | | (1,118) |
| Short positions | | | Investments | | | Net appreciation (depreciation) | | (2,974) |
| **Futures contracts, net** | | | | **(5,185)** | **(3,603)** | | **(64)** | **(4,100)** |
| *Options/swaptions* | | 19,950 | Investments | | 234 | Net appreciation (depreciation) | (234) | (1,234) |
| **Total investment derivatives** | | | | **$(5,185)** | **$(3,369)** | | **$(298)** | **$(5,334)** |

## University of California Retirement System

*(in thousands of dollars)*

| CATEGORY | NOTIONAL AMOUNT 2015 | NOTIONAL AMOUNT 2014 | FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION | FAIR VALUE 2015 | FAIR VALUE 2014 | CHANGES IN FAIR VALUE CLASSIFICATION | CHANGES 2015 | CHANGES 2014 |
|---|---|---|---|---|---|---|---|---|
| **INVESTMENT DERIVATIVES** | | | | | | | | |
| *Futures contracts:* | | | | | | | | |
| Domestic equity futures: | | | | | | | | |
| Long positions | 15,078 | 1,548,947 | Investments | $(25,633) | $ 1,647 | Net appreciation (depreciation) | $(25,425) | $ 311,241 |
| Short positions | (5,472) | (1,807) | Investments | (49) | (12) | Net appreciation (depreciation) | (11) | (118) |
| Foreign equity futures: | | | | | | | | |
| Long positions | 2,130 | 175,412 | Investments | (1,015) | 315 | Net appreciation (depreciation) | 107,999 | 26,328 |
| Short positions | (718) | | Investments | (10) | | Net appreciation (depreciation) | (311) | |
| **Futures contracts, net** | | | | **(26,707)** | **1,950** | | **82,252** | **337,451** |
| *Foreign currency exchange contracts, net*:* | | | | | | | | |
| Long positions | 3,883,496 | 2,574,058 | Investments | 282 | 619 | Net appreciation (depreciation) | 46,407 | 4,809 |
| Short positions | (37,037,304) | (190,984) | Investments | (2,498) | (1,019) | Net appreciation (depreciation) | (88,287) | (7,170) |
| **Foreign currency exchange contracts, net** | | | | **(2,216)** | **(400)** | | **(41,880)** | **(2,361)** |
| *Swaps:* | | | | | | | | |
| Credit default swaps | | | Investments | | | Net appreciation (depreciation) | 84 | |
| Fixed interest rate swaps | 5,247 | | Investments | (100) | 1,194 | Net appreciation (depreciation) | (102) | 673 |
| Total return swaps equity | | 7,818 | Investments | | (6) | Net appreciation (depreciation) | (75) | (81) |
| **Swaps, net** | | | | **(100)** | **1,188** | | **(93)** | **592** |
| Stock rights/warrants | 6,252 | 4,550 | Investments | 56,004 | 33,332 | Net appreciation (depreciation) | 8,547 | 7,215 |
| Options/swaptions | | 13,534 | Investments | | 4,966 | Net appreciation (depreciation) | 976 | 2,355 |
| **Total investment derivatives** | | | | **$26,981** | **$41,036** | | **$49,802** | **$345,252** |

**Notional amount reported in local currency.*

## Objectives and Terms of Hedging Derivative Instruments

The objectives and terms of the hedging derivative instruments outstanding at June 30, along with the credit rating of the associated counterparty, are as follows:

*(in thousands of dollars)*

| TYPE | OBJECTIVE | NOTIONAL AMOUNT | | EFFECTIVE DATE | MATURITY DATE | CASH PAID OR RECEIVED | TERMS | COUNTERPARTY CREDIT RATING | FAIR VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2015 | 2014 | | | | | | 2015 | 2014 |
| **UNIVERSITY OF CALIFORNIA** | | | | | | | | | | |
| Pay fixed, receive variable interest rate swap | Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds | 74,110 | 77,220 | 2007 | 2032 | None | Pay fixed 3.5897%; receive 58% of 1-Month LIBOR* plus 0.48% | A1/A | $(11,108) | $(10,862) |
| Pay fixed, receive variable interest rate swap | Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds | 124,775 | 124,775 | 2008 | 2030 through 2043 | None | Pay fixed 4.6359%; receive 67% of 3-Month LIBOR* plus 0.69%** | A3/BBB+ | (40,212) | (35,966) |
| Pay fixed, receive variable interest rate swap | Hedge of changes in cash flows on variable-rate General Revenue Bonds | 400,000 | 400,000 | 2013 | 2023 | None | Pay fixed 1.8982%; receive 70% of 1-Month LIBOR* | Aa2/AA- | (12,769) | (7,196) |
| Pay fixed, receive variable interest rate swap | Hedge of changes in cash flows on variable-rate General Revenue Bonds | 100,000 | 100,000 | 2013 | 2023 | None | Pay fixed 1.9057%; receive 70% of 1-Month LIBOR* | Aa2/AA- | (3,250) | (1,863) |
| Pay fixed, receive variable interest rate swap | Hedge of changes in cash flows on variable-rate General Revenue Bonds | 100,000 | 100,000 | 2013 | 2023 | None | Pay fixed 1.8980%; receive 70% of 1-Month LIBOR* | Aa2/AA- | (3,190) | (1,797) |
| Pay fixed, receive variable interest rate swap | Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds | 24,250 | 24,250 | 2013 | 2045 | None | Pay fixed 4.741%; receive 67% of 3-Month LIBOR* +0.79%** | A3/BBB+ | (9,809) | (8,400) |
| Pay fixed, receive variable interest rate swap | Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds | 25,750 | 25,750 | 2013 | 2047 | None | Pay fixed 4.741%; receive 67% of 3-Month LIBOR* +0.79%** | A3/BBB+ | (10,755) | (9,156) |
| **Interest rate swaps, net** | | **848,885** | **851,995** | | | | | | **$(91,093)** | **$(75,240)** |

** London Interbank Offered Rate (LIBOR)*
***Weighted average spread*

## Hedging Derivative Instrument Risk Factors

### *Credit Risk*

The University could be exposed to credit risk if the interest rate swap counterparties to the contracts are unable to meet the terms of the contracts. Contracts with positive fair values are exposed to credit risk. The University faces a maximum possible loss equivalent to the amount of the derivative's fair value, less any collateral held by the University provided by the counterparty. Contracts with negative fair values are not exposed to credit risk.

Although the University has entered into the interest rate swaps with creditworthy financial institutions to hedge its variable-rate debt, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements.

There are no collateral requirements related to the interest rate swap with the $74.1 million notional amount. Depending on the fair value related to the swaps with the combined $174.8 million notional amount, the University may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds $15.0 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $125.0 million or the cash and investments held by the medical centers fall below $250.0 million.

Depending on the fair value related to the swaps with the counterparty that is currently rated Aa2/AA- with a combined notional amount of $500.0 million and the swap with the counterparty that is currently rated Aa2/AA- with a notional amount of $100.0 million, the University may be entitled to receive collateral from each counterparty to the extent the positive fair value of the swap or swaps with each counterparty exceeds $30.0 million. As of June 30, 2015 and 2014, there was no collateral required.

### *Interest Rate Risk*

There is a risk that the value of the interest rate swaps will decline because of changing interest rates. The values of the interest rate swaps with longer maturities tend to be more sensitive to changing interest rates and, therefore, more volatile than those with shorter maturities.

### *Basis Risk*

There is a risk that the basis for the variable payment received on interest rate swaps will not match the variable payment on the bonds. This exposes the University to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swaps is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market. However, there is no basis or tax risk related to the swap with the $149.0 million notional amount since the variable rate the University pays to the bondholders matches the variable-rate payments received from the swap counterparty and the interest rates are reset at the same intervals.

### *Termination Risk*

There is termination risk for interest rate swaps associated with variable-rate bonds in the event of non-performance by counterparties in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, certain interest rate swaps may be terminated if a counterparty's credit quality rating, as issued by Moody's or Standard & Poor's, falls below certain thresholds. For the interest rate swaps with the combined $74.1 million notional amount, the termination threshold is reached when the credit quality rating for either the underlying Medical Center Pooled Revenue Bonds or swap counterparty falls below Baa2 or BBB. For the swap with the $174.8 million notional amount, the termination threshold is reached when the credit quality rating for the underlying Medical Center Pooled Revenue Bonds falls below Baa3/BBB-, or the interest rate swap counterparty's rating falls below Baa2 or BBB.

For the swaps with notional amounts of $400.0 million and $100.0 million with a counterparty that is currently rated Aa2/AA-, the termination threshold is reached when the credit quality rating for the underlying General Revenue Bonds falls below Baa2 or BBB, or the swap counterparty's rating falls below A3 or A-. For the swap with a notional amount of $100.0 million with a counterparty that is currently rated Aa2/AA-, the termination threshold is reached when the credit quality rating for the underlying General Revenue Bonds falls below Baa2 or BBB, or the swap counterparty's rating falls below A3 or A-. Upon termination, the University may also owe a termination payment if there is a realized loss based on the fair value of each interest rate swap.

### *Rollover Risk*

The University is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the University will be re-exposed to the risks being hedged by the hedging derivative instruments. The University is exposed to rollover risk on the interest rate swaps that mature in October 2023 because the hedged debt is scheduled to mature in May 2048.

## 5. INVESTMENTS HELD BY TRUSTEES

The University has entered into agreements with trustees to maintain trusts for the University's self-insurance programs, long-term debt requirements, capital projects and certain other requirements. In addition, the state of California retained on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects.

### Self-Insurance Programs

Investments held by trustees for self-insurance programs include separate trusts for the workers' compensation and professional medical and hospital liability programs. Securities are held by the trustees in the name of the University. The trust agreements permit the trustees to invest in equity securities, long-term and short-term debt securities, commercial paper and other securities including any common or commingled trust funds.

The composition of cash and investments and the modified duration associated with fixed-income securities for self-insurance programs at June 30 are as follows:

*(in thousands of dollars)*

| | INVESTMENTS AT FAIR VALUE | | MODIFIED DURATION | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Cash | $ (1,567) | $ (368) | | |
| Commingled funds: | | | | |
| U.S. bond funds | 568,429 | 535,515 | 5.9 | 6.0 |
| Money market funds | 74,819 | 71,289 | | |
| U.S. equity funds | 106,402 | 103,898 | | |
| **Total** | **$748,083** | **$710,334** | | |

Self-insurance investments are held in externally managed commingled funds with underlying credit ratings ranging from B to AAA, where applicable.

### Long-Term Debt

Investments held by trustees for future payment of principal and interest in accordance with various Indenture and other long-term debt requirements totaled $28.4 million and $2.9 million at June 30, 2015 and 2014, respectively. Securities held by trustees are held in the name of the University and these trust agreements permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

### Capital Projects

Proceeds from the sale of the state of California's lease revenue bonds to be used for financing certain University capital projects were deposited in a commingled U.S. bond fund managed by the state of California Treasurer's Office, as trustee, and distributed to the University as the projects are constructed. The fair value of these deposits was $26.1 million and $109.2 million at June 30, 2015 and 2014, respectively.

In addition, proceeds from the sale of bonds and certain University funds are held by trustees to be used for financing and operating third-party capital projects. The fair value of these investments was $63.1 million at June 30, 2015 and 2014. Substantially, all of these investments are of a highly liquid, short-term nature.

## 6. ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for accounts are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | | | | | | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|---|---|---|---|---|---|
| | STATE AND FEDERAL GOVERNMENT | MEDICAL CENTERS | INVESTMENT INCOME | PRIVATE GRANTS AND CONTRACTS | MEDICAL PROFESSIONAL FEES | OTHER | TOTAL | |
| *At June 30, 2015* | | | | | | | | |
| Accounts receivable | $574,165 | $1,874,114 | $67,486 | $351,747 | $306,750 | $413,713 | $3,587,975 | $213,828 |
| Allowance for uncollectible accounts | (3,525) | (297,658) | | (6,624) | (36,560) | (25,663) | (370,030) | (12,399) |
| Accounts receivable, net | **$570,640** | **$1,576,456** | **$67,486** | **$345,123** | **$270,190** | **$388,050** | **$3,217,945** | **$201,429** |
| *At June 30, 2014* | | | | | | | | |
| Accounts receivable | $577,852 | $ 1,753,698 | $ 63,320 | $297,441 | $279,510 | $351,697 | $ 3,323,518 | $115,755 |
| Allowance for uncollectible accounts | (2,333) | (251,066) | | (5,605) | (37,272) | (26,469) | (322,745) | (12,702) |
| Accounts receivable, net | **$575,519** | **$1,502,632** | **$63,320** | **$291,836** | **$242,238** | **$325,228** | **$ 3,000,773** | **$103,053** |

The University's other accounts receivable are primarily related to investment sales, tuition and fees, auxiliary enterprises, insurance rebates and legal settlements. Other receivables included $55.9 million and $58.1 million loaned by the University to CHRCO at June 30, 2015 and 2014, respectively.

The campus foundations' accounts receivable are primarily related to investment income. CHRCO's receivables primarily include patient receivables.

The expense for uncollectible accounts have either increased (decreased) the following revenues for the years ended June 30:

*(in thousands of dollars)*

| | 2015 | 2014 |
|---|---|---|
| Student tuition and fees | $ (1,191) | $ (2,257) |
| Grants and contracts: | | |
| Federal | (2,312) | (208) |
| State | (153) | 342 |
| Private | (1,622) | (1,113) |
| Local | 69 | 7 |
| Medical centers | (256,079) | (309,085) |
| Educational activities | (17,711) | (8,595) |
| Auxiliary enterprises | 308 | (501) |
| Other operating revenues | (35) | (1,960) |
| **Expense for uncollectible accounts** | **$(278,726)** | **$ (323,370)** |

### Retirement System Contribution

The state of California agreed to make contributions related to certain prior years to the University for UCRP in annual installments over 30 years. During the years ended June 30, 2015 and 2014, under the terms of these agreements, the state of California contributed $5.3 million and $6.1 million, respectively, including interest at rates ranging from 8.0 percent to 8.5 percent. At June 30, 2015 and 2014, the remaining amount owed to UCRP by the state was $20.9 million and $24.3 million, respectively. These amounts are recorded in the University's statement of net position as a receivable from the state of California and as a liability owed to UCRP.

## 7. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30 are summarized as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Total pledges receivable outstanding | $68,509 | $85,542 | $1,034,561 | $1,064,170 |
| Less: Unamortized discount to present value | (1,185) | (2,754) | (137,702) | (112,116) |
| Allowance for uncollectible pledges | (19,339) | (21,175) | (70,723) | (87,186) |
| **Total pledges receivable, net** | **47,985** | **61,613** | **826,136** | **864,868** |
| Less: Current portion of pledges receivable | (21,426) | (26,833) | (199,488) | (222,531) |
| **Noncurrent portion of pledges receivable** | **$26,559** | **$34,780** | **$ 626,648** | **$ 642,337** |

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2015 and thereafter are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|
| *Year Ending June 30* | | |
| 2016 | $35,886 | $ 234,868 |
| 2017 | 12,779 | 132,632 |
| 2018 | 9,324 | 99,735 |
| 2019 | 4,045 | 80,289 |
| 2020 | 2,955 | 64,226 |
| 2021 - 2025 | 2,520 | 155,998 |
| Beyond 2025 | 1,000 | 266,813 |
| **Total payments on pledges receivable** | **$68,509** | **$1,034,561** |

Adjustments to the allowance for uncollectible pledges for the University have increased (decreased) the following revenues for the years ended June 30, 2015 and 2014:

*(in thousands of dollars)*

| | **2015** | **2014** |
|---|---|---|
| Private gifts | $ (718) | $(11,526) |
| Capital gifts and grants | 7,987 | 353 |

## 8. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2014, along with the allowance for uncollectible amounts, are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | | | DISCRETELY PRESENTED COMPONENT UNITS | |
|---|---|---|---|---|---|---|
| | | NONCURRENT | | | | |
| | CURRENT | NOTES | MORTGAGES | TOTAL | CURRENT | NONCURRENT |
| *At June 30, 2015* | | | | | | |
| Notes and mortgages receivable | $51,010 | $331,518 | $24,449 | $355,967 | $12 | $1,375 |
| Allowance for uncollectible amounts | (7,203) | (19,227) | (134) | (19,361) | | |
| **Notes and mortgages receivable, net** | **$43,807** | **$312,291** | **$24,315** | **$336,606** | **$12** | **$1,375** |
| *At June 30, 2014* | | | | | | |
| Notes and mortgages receivable | $49,986 | $317,930 | $24,713 | $342,643 | $5 | $1,296 |
| Allowance for uncollectible amounts | (6,489) | (20,838) | (140) | (20,978) | | |
| **Notes and mortgages receivable, net** | **$43,497** | **$297,092** | **$24,573** | **$321,665** | **$5** | **$1,296** |

## 9. DOE NATIONAL LABORATORY CONTRACTS

### Los Alamos National Security, LLC (LANS)

LANS operates and manages the DOE's LANL. LANS' current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50 percent membership interest in LANS, its equity in the current earnings or losses is subject to certain limitations and special allocations of both the fees and costs. As a result, the University's equity in the current earnings or losses may range from 17.0 to 50.0 percent. For the years ended June 30, 2015 and 2014, the University recorded $1.8 million and $12.7 million, respectively, as its equity in the current earnings of LANS and received $3.3 million and $13.3 million in cash distributions.

### Lawrence Livermore National Security, LLC (LLNS)

LLNS manages and operates the DOE's LLNL. LLNS' current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50 percent membership interest in LLNS, its equity in the current earnings or losses is 36.3 percent as of June 30, 2015 and 2014. For the years ended June 30, 2015 and 2014, the University recorded $11.4 million and $12.4 million, respectively, as its equity in the current earnings of LLNS and received $11.5 million and $12.0 million, respectively, in cash distributions.

## 10. CAPITAL ASSETS

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

*(in thousands of dollars)*

| | 2013 | ADDITIONS | DISPOSALS | 2014 | ADDITIONS | DISPOSALS | 2015 |
|---|---|---|---|---|---|---|---|
| **ORIGINAL COST** | | | | | | | |
| Land | $ 840,050 | $ 11,825 | $ (4,710) | $ 847,165 | $ 111,685 | $ (1,810) | $ 957,040 |
| Infrastructure | 585,270 | 18,349 | (51) | 603,568 | 43,546 | | 647,114 |
| Buildings and improvements | 29,514,691 | 1,509,912 | (27,254) | 30,997,349 | 2,618,867 | (137,935) | 33,478,281 |
| Equipment, software and intangibles | 6,237,146 | 494,632 | (337,050) | 6,394,728 | 677,145 | (349,188) | 6,722,685 |
| Libraries and collections | 3,699,125 | 138,486 | (20,178) | 3,817,433 | 137,829 | (23,422) | 3,931,840 |
| Special collections | 354,109 | 28,304 | (136) | 382,277 | 3,800 | (1,856) | 384,221 |
| Construction in progress | 2,898,206 | 718,076 | | 3,616,282 | (827,625) | | 2,788,657 |
| **Capital assets, at original cost** | **$44,128,597** | **$2,919,584** | **$(389,379)** | **$46,658,802** | **$2,765,247** | **$(514,211)** | **$48,909,838** |
| | **2013** | **DEPRECIATION AND AMORTIZATION** | **DISPOSALS** | **2014** | **DEPRECIATION AND AMORTIZATION** | **DISPOSALS** | **2015** |
| **ACCUMULATED DEPRECIATION AND AMORTIZATION** | | | | | | | |
| Infrastructure | $ 284,911 | $ 20,454 | $ (22) | $ 305,343 | $ 21,037 | $ (13) | $ 326,367 |
| Buildings and improvements | 10,958,368 | 1,099,747 | (13,615) | 12,044,500 | 991,251 | (93,020) | 12,942,731 |
| Equipment, software and intangibles | 4,007,422 | 463,231 | (297,079) | 4,173,574 | 519,794 | (306,515) | 4,386,853 |
| Libraries and collections | 2,698,011 | 126,240 | (50,391) | 2,773,860 | 128,951 | (23,553) | 2,879,258 |
| **Accumulated depreciation and amortization** | **17,948,712** | **$1,709,672** | **$(361,107)** | **19,297,277** | **$1,661,033** | **$(423,101)** | **20,535,209** |
| **Capital assets, net** | **$26,179,885** | | | **$27,361,525** | | | **$28,374,629** |

Service concession arrangements, reported as buildings and improvements, are $91.1 million of original cost and $19.1 million of accumulated depreciation at June 30, 2015. Service concession arrangements, reported as buildings and improvements, are $48.3 million of original cost and $17.6 million of accumulated depreciation at June 30, 2014.

The discretely presented component units' capital asset activity for the years ended June 30 is as follows:

*(in thousands of dollars)*

| | 2013 | ADDITIONS | DISPOSALS | 2014 | ADDITIONS | DISPOSALS | 2015 |
|---|---|---|---|---|---|---|---|
| **ORIGINAL COST** | | | | | | | |
| Land | $ 16,290 | | | $ 16,290 | $ (376) | | $ 15,914 |
| Buildings and improvements | 255,317 | $ 15,320 | $ (70) | 270,567 | 2,967 | $ (355) | 273,179 |
| Equipment, software and intangibles | 141,973 | 104,947 | (4,191) | 242,729 | 7,098 | (8,885) | 240,942 |
| Construction in progress | 74,215 | (48,332) | | 25,883 | 12,133 | | 38,016 |
| **Capital assets, at original cost** | **$487,795** | **$71,935** | **$(4,261)** | **$555,469** | **$21,822** | **$(9,240)** | **$568,051** |

| | 2013 | DEPRECIATION AND AMORTIZATION | DISPOSALS | 2014 | DEPRECIATION AND AMORTIZATION | DISPOSALS | 2015 |
|---|---|---|---|---|---|---|---|
| **ACCUMULATED DEPRECIATION AND AMORTIZATION** | | | | | | | |
| Buildings and improvements | $142,483 | $ 7,940 | $ (50) | $150,373 | $ 8,754 | | $159,127 |
| Equipment, software and intangibles | 103,439 | 22,000 | (3,975) | 121,464 | 28,128 | $(8,818) | 140,774 |
| **Accumulated depreciation and amortization** | **245,922** | **$29,940** | **$(4,025)** | **271,837** | **$36,882** | **$(8,818)** | **299,901** |
| **Capital assets, net** | **$241,873** | | | **$283,632** | | | **$268,150** |

## 11. SELF-INSURANCE, OBLIGATIONS UNDER LIFE INCOME AGREEMENTS AND OTHER LIABILITIES

The University's self-insurance and other liabilities at June 30 are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | | | DISCRETELY PRESENTED COMPONENT UNITS | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | CURRENT | NONCURRENT | CURRENT | NONCURRENT | CURRENT | NONCURRENT | CURRENT | NONCURRENT |
| Self-insurance programs | $ 214,744 | **$477,398** | $ 201,538 | **$443,040** | | **$ 18,146** | | **$ 16,091** |
| Obligations under life income agreements | 1,075 | **$ 29,221** | 1,010 | **$ 28,700** | $19,576 | **$135,752** | $20,710 | **$140,818** |
| Other liabilities: | | | | | | | | |
| Compensated absences | 523,789 | $274,373 | 485,105 | $262,593 | 22,076 | | 21,149 | |
| UCRP* | 3,258 | 17,391 | 3,258 | 20,925 | | | | |
| Accrued interest | 111,869 | | 92,142 | | | | | |
| Fair value of interest rate swaps | | 91,093 | | 75,239 | | | | |
| Payable to University | | | | | 6,234 | $ 53,715 | 2,205 | $ 55,915 |
| Other | 594,628 | 201,866 | 490,350 | 151,490 | 11,994 | 48,742 | 26,675 | 25,762 |
| **Total** | **$1,449,363** | **$584,723** | **$1,273,403** | **$510,247** | **$59,880** | **$102,457** | **$70,739** | **$ 81,677** |

** UCRP has an equivalent amount recorded as a contribution receivable from the University in its statement of fiduciary net position.*

CHRCO's long-term debts were defeased or retired with advances from the University's commercial paper program in June 2014.

## Self-Insurance Programs

Changes in liabilities for self-insurance or insured through a wholly owned captive insurance company changed as follows for the years ended June 30:

*(in thousands of dollars)*

| | MEDICAL MALPRACTICE | WORKERS' COMPENSATION | EMPLOYEE & STUDENT HEALTH CARE | GENERAL LIABILITY | TOTAL |
|---|---|---|---|---|---|
| *Year Ended June 30, 2015* | | | | | |
| Liabilities at June 30, 2014 | $176,705 | $311,714 | $ 68,382 | $87,777 | $644,578 |
| Claims incurred and changes in estimates | 47,513 | 106,148 | 533,636 | 49,146 | 736,443 |
| Claim payments | (41,409) | (75,921) | (529,107) | (42,442) | (688,879) |
| **Liabilities at June 30, 2015** | **$182,809** | **$341,941** | **$ 72,911** | **$94,481** | **$692,142** |
| **Discount rate** | **5.0%** | **5.0%** | **Undiscounted** | **2.0%** | |
| *Year Ended June 30, 2014* | | | | | |
| Liabilities at June 30, 2013 | $190,594 | $311,581 | $ 39,685 | $89,938 | $631,798 |
| Claims incurred and changes in estimates | 41,522 | 74,114 | 329,892 | 21,663 | 467,191 |
| Claim payments | (55,411) | (73,981) | (301,195) | (23,824) | (454,411) |
| **Liabilities at June 30, 2014** | **$176,705** | **$311,714** | **$ 68,382** | **$87,777** | **$644,578** |
| **Discount rate** | **5.0%** | **5.0%** | **Undiscounted** | **2.0%** | |
| *Year Ended June 30, 2013* | | | | | |
| Liabilities at June 30, 2012 | $178,289 | $299,193 | $ 34,876 | $86,818 | $599,176 |
| Claims incurred and changes in estimates | 63,767 | 87,378 | 250,270 | 20,417 | 421,832 |
| Claim payments | (51,462) | (74,990) | (245,461) | (17,297) | (389,210) |
| **Liabilities at June 30, 2013** | **$190,594** | **$311,581** | **$ 39,685** | **$89,938** | **$631,798** |
| **Discount rate** | **5.0%** | **5.0%** | **Undiscounted** | **2.0%** | |

Changes in self-insurance or insured liabilities for the discretely presented component units for the years ended June 30 are as follows:

*(in thousands of dollars)*

| | MEDICAL MALPRACTICE | WORKERS' COMPENSATION | EMPLOYEE HEALTH CARE | TOTAL |
|---|---|---|---|---|
| *Year Ended June 30, 2015* | | | | |
| Liabilities at June 30, 2014 | $4,619 | $ 9,341 | $ 2,131 | $16,091 |
| Claims incurred and changes in estimates | 562 | 5,337 | 9,359 | 15,258 |
| Claim payments | (754) | (3,481) | (8,968) | (13,203) |
| **Liabilities at June 30, 2015** | **$4,427** | **$11,197** | **$ 2,522** | **$18,146** |
| **Discount rate** | **5.0%** | **5.0%** | **Undiscounted** | |
| *Year Ended June 30, 2014* | | | | |
| Liabilities at June 30, 2013 | $4,078 | $ 7,523 | $ 1,872 | $13,473 |
| Claims incurred and changes in estimates | 700 | 4,113 | 10,247 | 15,060 |
| Claim payments | (159) | (2,295) | (9,988) | (12,442) |
| **Liabilities at June 30, 2014** | **$4,619** | **$ 9,341** | **$ 2,131** | **$16,091** |
| **Discount rate** | **5.0%** | **5.0%** | **Undiscounted** | |
| *Year Ended June 30, 2013* | | | | |
| Liabilities at June 30, 2012 | $4,050 | $ 5,229 | $ 2,077 | $11,356 |
| Claims incurred and changes in estimates | 244 | 4,993 | 9,919 | 15,156 |
| Claim payments | (216) | (2,699) | (10,124) | (13,039) |
| **Liabilities at June 30, 2013** | **$4,078** | **$ 7,523** | **$ 1,872** | **$13,473** |
| **Discount rate** | **5.0%** | **5.0%** | **Undiscounted** | |

## Obligations Under Life Income Agreements

Changes in current and noncurrent obligations under life income agreements for the years ended June 30 are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | DISCRETELY PRESENTED COMPONENT UNITS | |
|---|---|---|---|---|
| | ANNUITIES | LIFE BENEFICIARIES | ANNUITIES | LIFE BENEFICIARIES |
| *Year Ended June 30, 2015* | | | | |
| Balance at June 30, 2014 | $13,558 | $16,152 | $51,972 | $109,556 |
| New obligations to beneficiaries and change in liability, net | 2,450 | 1,467 | 5,478 | 6,746 |
| Payments to beneficiaries | (1,974) | (1,357) | (6,827) | (11,597) |
| **Obligations under life income agreements at June 30, 2015** | **14,034** | **16,262** | **50,623** | **104,705** |
| Less: Current portion | (598) | (477) | (6,975) | (12,601) |
| **Noncurrent portion at June 30, 2015** | **$13,436** | **$15,785** | **$43,648** | **$ 92,104** |
| *Year Ended June 30, 2014* | | | | |
| Balance at June 30, 2013 | $14,271 | $ 15,530 | $ 53,388 | $ 116,379 |
| New obligations to beneficiaries and change in liability, net | 1,265 | 3,097 | 5,491 | 4,862 |
| Payments to beneficiaries | (1,978) | (2,475) | (6,907) | (11,685) |
| **Obligations under life income agreements at June 30, 2014** | **13,558** | **16,152** | **51,972** | **109,556** |
| Less: Current portion | (540) | (470) | (7,050) | (13,660) |
| **Noncurrent portion at June 30, 2014** | **$13,018** | **$ 15,682** | **$44,922** | **$ 95,896** |

## 12. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment, or for such other purposes as are authorized by The Regents through the issuance of debt obligations or indirectly through structures that involve legally separate entities reported as blended component units. Commercial paper and bank loans provide interim financing. Long-term financing includes revenue bonds, capital lease obligations and other borrowings.

The University's outstanding debt at June 30 is as follows:

*(in thousands of dollars)*

| | WEIGHTED AVERAGE INTEREST RATE | INTEREST RATE RANGE | MATURITY YEARS | 2015 | 2014 |
|---|---|---|---|---|---|
| **INTERIM FINANCING:** | | | | | |
| Commercial paper | | 0.1 - 0.2% | 2015 | $ 1,084,922 | $ 993,650 |
| **LONG-TERM FINANCING:** | | | | | |
| University of California General Revenue Bonds | | | | | |
| Fixed Rate | 4.8% | 0.5 - 7.6% | 2016-2115 | 8,653,000 | 9,222,595 |
| Variable Rate | 0.3% | 0.1 - 0.7% | 2037-2048 | 1,250,000 | 1,250,000 |
| University of California Limited Project Revenue Bonds | 4.9% | 0.6 - 6.3% | 2016-2050 | 3,301,505 | 1,966,650 |
| University of California Medical Center Pooled Revenue Bonds | | | | | |
| Fixed Rate | 5.7% | 3.0 - 6.6% | 2016-2049 | 2,484,940 | 2,523,200 |
| Variable Rate | 0.6% | 0.0 - 1.0% | 2016-2047 | 254,435 | 257,545 |
| University of California Medical Center Revenue Bonds | 5.1% | 5.0 - 5.5% | 2016-2039 | 44,970 | 47,265 |
| Unamortized bond premium | | | | 788,314 | 595,728 |
| **University of California revenue bonds** | **4.5%** | | | **16,777,164** | **15,862,983** |
| Capital lease obligations | | 0.0 - 7.8% | 2015-2042 | 131,278 | 113,224 |
| Other University borrowings | | Various | 2015-2049 | 337,169 | 362,823 |
| Blended component unit revenue bonds, net | 5.9% | 4.0 - 6.5% | 2015-2049 | 690,222 | 698,069 |
| **Total outstanding debt** | | | | **19,020,755** | **18,030,749** |
| Less: Commercial paper | | | | (1,084,922) | (993,650) |
| Current portion of outstanding debt | | | | (1,306,499) | (1,186,884) |
| **Noncurrent portion of outstanding debt** | | | | **$16,629,334** | **$15,850,215** |

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2015 and 2014 was $755.4 million and $692.4 million, respectively. Interest expense, net of investment income, totaling $93.0 million and $76.8 million was capitalized during the years ended June 30, 2015 and 2014, respectively. The remaining $662.4 million and $615.6 million in 2015 and 2014, respectively, is reported as interest expense in the statements of revenues, expenses and changes in net position.

## Outstanding Debt Activity

The activity with respect to the University's current and noncurrent debt, including the revenue bonds associated with blended component units, for the years ended June 30 is as follows:

*(in thousands of dollars)*

| | UNIVERSITY REVENUE BONDS | CAPITAL LEASE OBLIGATIONS | OTHER UNIVERSITY BORROWINGS | BLENDED COMPONENT UNIT REVENUE BONDS | TOTAL |
|---|---|---|---|---|---|
| *Year Ended June 30, 2015* | | | | | |
| Long-term debt and capital leases at June 30, 2014 | $ 15,862,983 | $ 113,224 | $ 362,823 | $ 698,069 | $ 17,037,099 |
| New obligations | 3,350,290 | 43,010 | 129 | | 3,393,429 |
| Bond premium | 241,520 | | | | 241,520 |
| Refinancing or prepayment of outstanding debt | (2,325,530) | | (51) | | (2,325,581) |
| Scheduled principal payments | (303,165) | (24,956) | (25,732) | (7,767) | (361,620) |
| Amortization of bond premium | (48,934) | | | (80) | (49,014) |
| **Long-term debt and capital leases at June 30, 2015** | **16,777,164** | **131,278** | **337,169** | **690,222** | **17,935,833** |
| Less: Current portion | (1,157,117) | (21,682) | (118,327) | (9,373) | (1,306,499) |
| **Noncurrent portion at June 30, 2015** | **$15,620,047** | **$ 109,596** | **$218,842** | **$680,849** | **$16,629,334** |
| *Year Ended June 30, 2014* | | | | | |
| Long-term debt and capital leases at June 30, 2013 | $ 12,233,122 | $ 2,582,411 | $ 395,279 | $ 705,413 | $ 15,916,225 |
| New obligations | 4,078,840 | 36,470 | 13,904 | | 4,129,214 |
| Bond premium | 185,534 | | | | 185,534 |
| Refinancing or prepayment of outstanding debt | (28,295) | (2,389,830) | (15,383) | | (2,433,508) |
| Scheduled principal payments | (564,085) | (115,827) | (30,977) | (6,706) | (717,595) |
| Amortization of bond premium | (42,133) | | | (638) | (42,771) |
| **Long-term debt and capital leases at June 30, 2014** | **15,862,983** | **113,224** | **362,823** | **698,069** | **17,037,099** |
| Less: Current portion | (1,128,456) | (24,602) | (25,738) | (8,088) | (1,186,884) |
| **Noncurrent portion at June 30, 2014** | **$14,734,527** | **$ 88,622** | **$337,085** | **$689,981** | **$15,850,215** |

## Commercial Paper

The University has available a $2.0 billion commercial paper program, issued in two series, with tax-exempt and taxable components. Commercial paper may be issued for interim/permanent financing for capital projects, interim financing of equipment, financing of working capital for the medical centers, standby or interim financing for gift financed projects and working capital for the University. Proceeds from commercial paper of $58.1 million were loaned to CHRCO by the University as of June 30, 2014. The balance loaned to CHRCO as of June 30, 2015 was $55.9 million.

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

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

*(in thousands of dollars)*

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | INTEREST RATES | OUTSTANDING | INTEREST RATES | OUTSTANDING |
| Taxable | .08-0.19% | $ 1,084,922 | 0.08-0.2% | $ 993,650 |
| **Total outstanding** | | **$1,084,922** | | **$993,650** |

The expectation is that the University will continue to utilize available investments for liquidity support for the commercial paper program. Alternatively, the University may utilize lines of credit from external banks for the purpose of providing additional liquidity support for the commercial paper program. As of June 30, 2015, the University has two revolving credit agreements totaling $700.0 million. There were no borrowings against the revolving credit lines as of June 30, 2015 and 2014.

## University of California Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of the University. They generally have annual principal and semiannual or monthly interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue Bond Indentures require the University to use the facilities in a way which will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of the University consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond Indenture requires the University to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds. General Revenues for the years ended June 30, 2015 and 2014 were $14.0 billion and $13.0 billion, respectively. The pledge of General Revenues for interest rate swap agreements is on a parity basis with the University's General Revenue Bonds.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The Indenture requires the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. Pledged revenues for the years ended June 30, 2015 and 2014 were $1.2 billion and $729.8 million, respectively.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical center facilities and are collateralized by a joint and several pledges of the gross revenues of all five of the University's medical centers. Medical center gross revenues are excluded from General Revenues. The Medical Center Pooled Revenue Bond Indenture requires the medical centers to set rates, charges and fees each year sufficient for the Medical Centers' total operating and non-operating revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. Pledged revenues of the medical centers for the years ended June 30, 2015 and 2014 were $9.7 billion and $8.6 billion, respectively.

Medical Center Revenue Bonds have also financed certain facilities of one medical center and are collateralized by a pledge of the specific gross revenues associated with the medical center. That Medical Center Revenue Bond Indenture requires that medical center to achieve debt service coverage of 1.1 times, set limitations on encumbrances, indebtedness, disposition of assets and transfer services, as well as maintain certain other financial covenants.

The pledge of revenues under Limited Project Revenue Bonds is subordinate to the pledge of revenues associated with General Revenue Bonds, but senior to pledges under commercial paper agreements or bank loans.

Medical center gross revenues are pledged under the Indentures for the Medical Center Pooled Revenue Bonds and the UCLA Medical Center Revenue Bonds and certain interest rate swap agreements. The pledge of medical center revenues under Medical Center Pooled Revenue Bonds is subordinate to the specific Medical Center Revenue Bonds.

The pledge of medical center revenues for interest rate swap agreements may be at parity with or subordinate to specific Medical Center Revenue Bonds and Medical Center Pooled Revenue Bonds.

All Indentures permit the University to issue additional bonds as long as certain conditions are met.

## 2015 Activity

In March 2015, General Revenue Bonds totaling $1.2 billion, including $381.8 million of taxable bonds and $797.0 million of tax-exempt bonds, were issued to finance or refinance certain facilities and projects of the University. The bonds mature at various dates through 2045. Proceeds, including a bond premium of $116.1 million, were used to pay for project construction and issuance costs and to refund $972.2 million of outstanding General Revenue Bonds. The taxable bonds have a stated weighted average interest rate of 3.8 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.6 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refunding resulted in a loss of $39.1 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the remaining life of the refunded bonds. The refinancing and refunding of previously outstanding General Revenue Bonds resulted in cash flow savings of $140.8 million and an economic gain of $117.2 million.

In March 2015, Limited Project Revenue Bonds totaling $1.7 billion, including $436.5 million of taxable bonds and $1.2 billion of tax-exempt bonds, were issued to finance or refinance the acquisition, construction, improvement and renovation of certain athletic, parking, recreational, dining and student and faculty housing facilities of the University. The bonds mature at various dates through 2050. Proceeds, including a bond premium of $188.9 million, were used to pay for project construction and issuance costs and refund $1.4 billion of outstanding General Revenue Bonds and Limited Project Revenue Bonds. The taxable bonds have a weighted average interest rate of 4.1 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.8 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refunding resulted in a loss of $55.0 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the remaining life of the refunded bonds. The refinancing and refunding of previously outstanding General Revenue Bonds and Limited Project Revenue Bonds resulted in cash flow savings of $183.1 million and an economic gain of $158.8 million.

In April 2015, General Revenue Bonds totaling $500.0 million were issued to finance capital projects of the University or for such purposes as authorized by The Regents. The taxable bonds have a stated interest rate of 4.8 percent, maturing in 2115.

## 2014 Activity

In August 2013, tax-exempt Medical Center Pooled Revenue Bonds totaling $649.9 million, including $618.6 million of fixed-rate bonds and $31.3 million of variable-rate demand bonds, were issued to finance and refinance certain facilities and projects of the medical centers. Proceeds, including a bond premium of $6.3 million, were used to pay for project construction and issuance costs and to refund $28.3 million of outstanding Medical Center Revenue Bonds. The fixed-rate bonds mature at various dates through 2048 and the variable-rate bonds mature in 2047. The interest rates on the variable-rate demand bonds reset weekly and an interest rate swap, previously classified as an investment derivative, is being used to limit exposure to changes in market interest rates. In the event of a failed remarketing, the variable-rate demand bonds can be put back to The Regents for tender. The tax-exempt bonds have a stated weighted average interest rate of 5.0 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refinancing and refunding of previously outstanding Medical Center Revenue Bonds resulted in cash flow savings of $5.1 million and an economic gain of $3.6 million.

In October 2013, General Revenue Bonds totaling $2.5 billion, including $1.1 billion tax-exempt bonds, $712.3 million taxable bonds, and $600.0 million tax-exempt variable-rate demand bonds, were used to refinance debt issued by the state of California or for such other purposes as authorized by The Regents. Proceeds, including a bond premium of $124.9 million, were used to pay $2.4 billion in Lease Revenue Bonds issued by the State Public Works Board of the state of California, which are reported as lease-purchase agreements by the University and bond issuance costs. The fixed-rate bonds mature at various dates through 2048 and the variable-rate demand bonds mature at 2048. The tax-exempt bonds have a stated weighted average interest rate of 3.5 percent. The taxable bonds have a stated weighted average interest rate of 4.3 percent. The interest rates on the variable-rate demand bonds reset weekly and, in the event of a failed remarketing, can be put back to The Regents for tender. Interest rate swap agreements were executed to limit exposure to changes in market interest rates. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations to secure payment of the General Revenue Bonds. The refunding resulted in a loss of $253.5 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the remaining life of the refunded bonds. The refinancing and refunding of previously outstanding Lease Revenue Bonds issued by the State Public Works Board of the state of California resulted in additional cash flow requirements of $1.0 billion and an economic gain of $27.7 million. Bonds were issued to achieve estimated annual cash flow savings of $17.6 million to $100.0 million between 2014 and 2030.

In April 2014, General Revenue Bonds totaling $970.4 million, including $559.2 million tax-exempt bonds and $411.2 million taxable bonds, were used to finance and refinance certain facilities and projects of the University. The bonds mature at various dates through 2049. The tax-exempt bonds have a stated weighted average interest rate of 5.0 percent. The taxable bonds have a stated weighted average interest rate of 4.5 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In April 2014, the University remarketed General Revenue Bonds totaling $500.0 million of taxable bonds which were used to finance pension contributions to UCRP and operating costs on an interim basis. The scheduled mandatory tender for purchase is on July 1, 2017. The University pays an interest rate equal to 1-month LIBOR plus of 0.50% on these remarketed bonds starting on May 1, 2014.

## Capital Leases

The University entered into lease-purchase agreements with the state of California that were recorded as capital leases. The state sold lease revenue bonds to finance construction of certain state-owned buildings to be used by the University. At the conclusion of the lease term, ownership transferred to the University. In October 2013, the University refinanced all the lease revenue bonds issued by the state of California with University General Revenue Bonds and ownership of all the properties transferred to the University.

The state of California financing appropriation to the University under the terms of the lease-purchase agreements, recorded as nonoperating revenue, for the year ended June 30, 2014 was $0.5 million. The scheduled principal and interest, including accrued interest, reported in the University's financial statements for the year ended June 30, 2014 contain amounts related to these lease-purchase agreements with the state of California as follows:

| *(in thousands of dollars)* | |
|---|---|
| Capital lease principal | $16,910 |
| Capital lease interest | 7,942 |
| **Total** | **$24,852** |

Capital leases entered into with other lessors, typically for equipment, totaled $43.0 million and $36.5 million for the years ended June 30, 2015 and 2014, respectively.

## Other University Borrowings

Other University borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities, along with the borrowing component associated with a hybrid derivative instrument.

The University may use uncollateralized revolving lines of credit with commercial banks for general corporate purposes and to provide interim financing for buildings and equipment. Lines of credit commitments for general corporate purposes, with various expiration dates through December 5, 2017, totaled $445.0 million at June 30, 2015 and $345.0 million at June 30, 2014. Outstanding borrowings under these bank lines totaled $262.0 million at June 30, 2015 and 2014. A line of credit that provides interim financing for buildings and equipment, with an expiration date of April 30, 2016, totaled $3.0 million. There were no outstanding borrowings under this bank line at June 30, 2015 and 2014.

Certain of the interest rate swaps are considered hybrid instruments. As such, the interest rate swaps are comprised of a derivative instrument and a companion instrument recorded as a borrowing. The unamortized amount of the borrowing was $41.0 million and $42.1 million at June 30, 2015 and 2014, respectively.

## Blended Component Unit Revenue Bonds

### *Student Housing*

The University has entered into ground leases with a legally separate, non-profit corporation that develops and owns student housing projects and related amenities and improvements on a University campus through the use of a single-project limited liability corporation (LLC). The LLC manages the premises. The University's reversionary interest in the land is not subordinated. All costs associated with the ownership, operation and management of the improvements are the obligation of the LLC. Student rental rates are established in order to provide for operating expenses and maintain the required debt service coverage ratios. The University is not responsible for any payments related to the ownership, operation or financing of the student housing. However, under accounting requirements, the financial position and operating results of this legally separate organization are blended into the University's financial reporting entity.

The LLC, through its conduit issuer, has outstanding Student Housing LLC Revenue Bonds to finance the construction of the student housing facilities. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. They are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing projects, and do not constitute general obligations of The Regents.

At June 30, 2015 and 2014, the LLC, through its conduit issuer, has outstanding Student Housing LLC Revenue Bonds totaling $404.1 million and $410.5 million, respectively. The bonds mature at various dates through 2040 and have a weighted average interest rate of 5.6 percent.

### *Research Facilities*

The University has a public/private partnership, for the purpose of developing, constructing and managing a neuroscience research laboratory building with a legally separate, non-profit corporation. In connection with the research laboratory building, the University entered into a ground lease with the corporation. The corporation has entered into a sub-ground lease with a developer to construct, own and manage the building. The University agreed to lease all of the space in the building from the developer. The University's base rent payments are equal to the principal and interest payments on the bonds issued by the corporation to finance the construction of the building. As security on the bonds, the developer has assigned all payments received from the University for the space lease to the bond trustee.

All of the board members of the non-profit corporation are appointed by the University and the University has the authority to determine the budget for the corporation. Under accounting requirements, the financial position and operating results of this legally separate organization are blended into the University's financial reporting entity.

The corporation, through a conduit issuer, has outstanding tax-exempt revenue bonds totaling $19.7 million and taxable revenue bonds totaling $188.0 million. The tax-exempt revenue bonds mature at various dates from 2021 through 2025 and have a weighted average interest rate of 5.0 percent. They generally have annual serial maturities, semi-annual interest payments and optional redemption provisions. The taxable bonds mature in 2049 and have an interest rate of 6.5 percent. The taxable bonds were issued as Build America Bonds, under which the U.S. Treasury is expected to send the non-profit corporation 35.0 percent of the semi-annual interest cost on the taxable bonds, making the net interest rate 4.2 percent post-subsidy. The bonds have a term maturity with various certain annual sinking fund requirements, semi-annual interest payments and optional redemption provisions.

In addition, the University entered into a ground lease with a legally separate, non-profit corporation (the Consortium). The Consortium entered into an agreement with a developer to develop and own a research laboratory facility designed to expand collaborative work in stem cell research and facilitate its translation into tools and techniques to diagnose and treat degenerative diseases and other ailments. The developer constructed the research laboratory facility. All costs associated with the ownership, operation and management of the laboratory research facility are the obligation of the Consortium. The University, along with the other collaborative research partners, will lease space in the building. Under accounting requirements, the financial position and operating results of this legally separate organization are blended into the University's financial reporting entity.

The Consortium, through its conduit issuer, has outstanding revenue bonds totaling $57.5 million. The bonds mature at various dates through 2040 and have a weighted average interest rate of 5.0 percent. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. Lease payments from the occupants of the building are pledged as collateral on the bonds. To the extent the lease payments are not sufficient to pay the debt service, the University is obligated to pay the shortfall.

## Future Debt Service and Hedging Derivative Interest Rate Swaps

Future debt service payments for the University's fixed- and variable-rate debt and net receipts or payments on associated hedging derivative instruments for each of the five fiscal years subsequent to June 30, 2015, and thereafter are as presented below. Although not a prediction by the University of the future interest cost of the variable-rate bonds or the impact of the hedging derivative interest rate swaps, these amounts assume that current interest rates on variable-rate bonds and the current reference rates of the hedging derivative interest rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net hedging derivative interest rate swap payments will vary.

*(in thousands of dollars)*

| | COMMERCIAL PAPER | UNIVERSITY REVENUE BONDS | CAPITAL LEASES | OTHER UNIVERSITY BORROWINGS | BLENDED COMPONENT UNIT REVENUE BONDS | TOTAL PAYMENTS | PRINCIPAL | INTEREST |
|---|---|---|---|---|---|---|---|---|
| *Year Ending June 30* | | | | | | | | |
| 2016 | $1,085,191 | $ 1,060,149 | $ 25,792 | $118,978 | $ 48,122 | $ 2,338,232 | $ 1,547,621 | $ 790,611 |
| 2017 | | 1,029,698 | 21,172 | 174,418 | 62,752 | 1,288,040 | 530,314 | 757,726 |
| 2018 | | 1,017,375 | 16,014 | 4,122 | 48,209 | 1,085,720 | 341,992 | 743,728 |
| 2019 | | 1,017,953 | 12,420 | 3,482 | 48,210 | 1,082,065 | 351,830 | 730,235 |
| 2020 | | 1,307,122 | 10,906 | 2,106 | 48,208 | 1,368,342 | 655,606 | 712,736 |
| 2021-2025 | | 5,070,411 | 23,949 | 6,987 | 258,842 | 5,360,189 | 2,116,168 | 3,244,021 |
| 2026-2030 | | 4,770,642 | 25,674 | 7,276 | 258,253 | 5,061,845 | 2,436,948 | 2,624,897 |
| 2031-2035 | | 4,414,417 | 31,238 | 7,419 | 255,310 | 4,708,384 | 2,709,500 | 1,998,884 |
| 2036-2040 | | 4,046,727 | 38,005 | 7,195 | 222,410 | 4,314,337 | 3,016,216 | 1,298,121 |
| 2041-2045 | | 2,837,303 | 14,079 | 5,544 | 71,507 | 2,928,433 | 2,221,773 | 706,660 |
| 2046-2050 | | 1,291,026 | | 972 | 53,053 | 1,345,051 | 940,517 | 404,534 |
| 2051-2115 | | 5,499,561 | | | | 5,499,561 | 1,360,000 | 4,139,561 |
| **Total future debt service** | **1,085,191** | **33,362,384** | **219,249** | **338,499** | **1,374,876** | **36,380,199** | **$18,228,485** | **$18,151,714** |
| Less: Interest component of future payments | (269) | (17,373,534) | (85,559) | (1,330) | (691,022) | (18,151,714) | | |
| **Principal portion of future payments** | **1,084,922** | **15,988,850** | **133,690** | **337,169** | **683,854** | **18,228,485** | | |
| Adjusted by: | | | | | | | | |
| Unamortized bond premium | | 788,314 | | | 6,368 | 794,682 | | |
| Present value of net minimum leases included in long-term debt | | | (2,412) | | | (2,412) | | |
| **Total debt** | **$1,084,922** | **$16,777,164** | **$131,278** | **$337,169** | **$690,222** | **$19,020,755** | | |

Long-term debt does not include $3.2 billion of defeased liabilities at June 30, 2015. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the University's statement of net position.

General Revenue Bonds of $750.0 million are variable-rate demand bonds which reset weekly and, in the event of a failed remarketing, can be put back to The Regents for tender. The University has classified $750.0 million of these bonds as current liabilities as of June 30, 2015.

Medical Center Pooled Revenue Bonds of $105.4 million are variable-rate demand bonds which give the debt holders the ability to tender the bonds back to the University upon demand. In connection with $74.1 million of these outstanding variable-rate demand bonds, the University has entered into a bank standby bond purchase agreement to provide funds for the purchase of the bonds that have been tendered and not remarketed. The standby bond purchase agreement is scheduled to terminate on June 30, 2017. The University is required to repurchase any bonds held by the bank on the termination date of the agreement. The University has classified $31.3 million of these bonds as current liabilities as of June 30, 2015.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the University of the future interest cost of the variable-rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2015, combined debt service requirements of the variable-rate debt and net swap payments are as follows:

*(in thousands of dollars)*

| | VARIABLE-RATE BONDS | | INTEREST RATE SWAP, NET | TOTAL PAYMENTS |
|---|---|---|---|---|
| | PRINCIPAL | INTEREST | | |
| *Year Ending June 30* | | | | |
| 2016 | $ 3,230 | $ 1,681 | $ 19,462 | $ 24,373 |
| 2017 | 3,340 | 1,676 | 19,357 | 24,373 |
| 2018 | 3,465 | 1,676 | 19,255 | 24,396 |
| 2019 | 3,590 | 1,675 | 19,150 | 24,415 |
| 2020 | 3,725 | 1,680 | 19,045 | 24,450 |
| 2021-2025 | 31,295 | 8,283 | 75,321 | 114,899 |
| 2026-2030 | 45,855 | 7,538 | 33,391 | 86,784 |
| 2031-2035 | 37,565 | 6,505 | 25,580 | 69,650 |
| 2036-2040 | 37,040 | 5,225 | 19,637 | 61,902 |
| 2041-2045 | 282,540 | 2,986 | 10,375 | 295,901 |
| 2046-2050 | 402,790 | 434 | 595 | 403,819 |
| **Total** | **$854,435** | **$39,359** | **$261,168** | **$1,154,962** |

## 13. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows and inflows of resources at June 30 are summarized as follows:

*(in thousands of dollars)*

| | SERVICE CONCESSION ARRANGEMENTS | NET PENSION LIABILITY | LOSS ON DEBT REFUNDING | INTEREST RATE SWAP AGREEMENTS | TOTAL |
|---|---|---|---|---|---|
| *At June 30, 2015* | | | | | |
| Deferred outflows of resources | | $5,133,515 | $381,567 | $91,093 | $5,606,175 |
| Deferred inflows of resources | $72,024 | 5,233,505 | | | 5,305,529 |
| *At June 30, 2014* | | | | | |
| Deferred outflows of resources | | $3,285,031 | $339,743 | $75,240 | $3,700,014 |
| Deferred inflows of resources | $30,701 | 7,047,208 | | | 7,077,909 |

The deferred inflows and outflows of resources for the discretely presented component units are primarily related to the net pension liability for the CHRCO pension plan.

## 14. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most University employees participate in UCRS. UCRS consists of UCRP, a defined benefit plan funded with University and employee contributions; UCRSP that includes defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions; PERS-VERIP, a defined benefit plan for University employees who were members of PERS and who elected early retirement; and the Children's Hospital & Research Center at Oakland (CHRCO) Pension Plan, a defined benefit plan fully funded with CHRCO contributions. The Regents has the authority to establish and amend the benefit plans except for the CHRCO Pension Plan. Administration authority with respect to UCRS plans is vested with the President of the University as plan administrator and the President has redelegated that authority within UCRS to the Vice President — Human Resources. CHRCO administers the CHRCO Pension Plan as the Sponsor and plan assets are held by Union Bank, N.A. (the Trustee).

Condensed financial information related to each plan in UCRS and the changes in pension liability for UCRP, PERS-VERIP and the CHRCO Pension Plan for the year ended June 30, 2015 is as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | | | | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|---|---|---|---|
| | UNIVERSITY OF CALIFORNIA RETIREMENT PLAN | UNIVERSITY OF CALIFORNIA PERS-VERIP | SUBTOTAL | UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM | TOTAL | CHILDREN'S HOSPITAL & RESEARCH CENTER AT OAKLAND PENSION PLAN |
| **CONDENSED STATEMENT OF PLAN FIDUCIARY NET POSITION** | | | | | | |
| Investments at fair value | $55,999,293 | $ 68,928 | $56,068,221 | $15,527,386 | $71,595,607 | $340,557 |
| Participants' interests in mutual funds | | | | 4,947,859 | 4,947,859 | |
| Investment of cash collateral | 3,083,734 | 3,783 | 3,087,517 | 2,089,973 | 5,177,490 | |
| Other assets | 311,106 | 124 | 311,230 | 205,287 | 516,517 | |
| **Total assets** | **59,394,133** | **72,835** | **59,466,968** | **22,770,505** | **82,237,473** | **340,557** |
| Collateral held for securities lending | 3,083,773 | 3,783 | 3,087,556 | 2,089,999 | 5,177,555 | |
| Other liabilities | 1,254,910 | 1,627 | 1,256,537 | 389,478 | 1,646,015 | |
| **Total liabilities** | **4,338,683** | **5,410** | **4,344,093** | **2,479,477** | **6,823,570** | |
| **Net position held in trust** | **$55,055,450** | **$67,425** | **$55,122,875** | **$20,291,028** | **$75,413,903** | **$340,557** |
| **CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET POSITION** | | | | | | |
| Contributions | $ 3,303,058 | | $ 3,303,058 | $ 1,155,744 | $ 4,458,802 | $ 18,000 |
| Net appreciation (depreciation) in fair value of investments | 1,177,626 | $ 1,184 | $1,178,810 | 141,578 | 1,320,388 | |
| Investment and other income, net | 816,176 | 1,366 | 817,542 | 507,954 | 1,325,496 | 11,797 |
| **Total additions** | **5,296,860** | **2,550** | **5,299,410** | **1,805,276** | **7,104,686** | **29,797** |
| Benefit payment and participant withdrawals | 2,976,992 | 5,081 | 2,982,073 | 1,551,916 | 4,533,989 | 8,082 |
| Other deductions | 48,285 | 6 | 48,291 | 6,486 | 54,777 | 1,222 |
| **Total deductions** | **3,025,277** | **5,087** | **3,030,364** | **1,558,402** | **4,588,766** | **9,304** |
| **Increase in net position held in trust** | **2,271,583** | **(2,537)** | **2,269,046** | **246,874** | **2,515,920** | **20,493** |
| **Net position held in trust** | | | | | | |
| Beginning of year | 52,783,867 | 69,962 | 52,853,829 | 20,044,154 | 72,897,983 | 320,064 |
| **End of year** | **$55,055,450** | **$67,425** | **$55,122,875** | **$20,291,028** | **$75,413,903** | **$340,557** |
| **CHANGES IN TOTAL PENSION LIABILITY** | | | | | | |
| Service cost | $ 1,589,267 | | $ 1,589,267 | | | $ 9,448 |
| Interest | 4,538,846 | $ 2,704 | 4,541,550 | | | 24,682 |
| Difference between expected and actual experience | (112,155) | 242 | (111,913) | | | 762 |
| Changes of benefit terms | | | | | | 40 |
| Changes of assumptions or other inputs | 2,136,793 | 1,837 | 2,138,630 | | | 33,105 |
| Benefits paid, including refunds of employee contributions | (2,976,992) | (5,081) | (2,982,073) | | | (8,081) |
| **Net change in total pension liability** | **5,175,759** | **(298)** | **5,175,461** | | | **59,956** |
| **Total pension liability** | | | | | | |
| Beginning of year | 60,529,332 | 38,360 | 60,567,692 | | | 331,276 |
| **End of year** | **$65,705,091** | **$38,062** | **$65,743,153** | | | **$391,232** |
| **Net pension liability (asset), end of year** | **$10,649,641** | **$(29,363)** | **$10,620,278** | | | **$ 50,675** |

Additional information on the retirement plans can be obtained from the 2014-2015 annual reports of the University of California Retirement System which can be obtained at http://reportingtransparency.universityofcalifornia.edu/.

## University of California Retirement Plan

UCRP provides lifetime retirement income, disability protection, death benefits, and post-retirement and pre-retirement survivor benefits to eligible employees of the University, and its affiliates. Membership is required in UCRP for all employees appointed to work at least 50 percent time for one year or more or for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of pension benefit is determined under the basic formula of covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average plan compensation over a 36-month period, subject to certain limits imposed under the Internal Revenue Code. Annual cost-of-living adjustments (COLAs) are made to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may be granted subject to funding availability.

The University's membership in UCRP consisted of the following at June 30, 2015:

| | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | UNIVERSITY OF CALIFORNIA |
|---|---|---|---|
| Retirees and beneficiaries receiving benefits | 54,227 | 13,094 | 67,321 |
| Inactive members entitled to , but not receiving benefits | 63,956 | 11,209 | 75,165 |
| Active members: | | | |
| Vested | 73,493 | 1,665 | 75,158 |
| Nonvested | 47,686 | 924 | 48,610 |
| **Total active members** | **121,179** | **2,589** | **123,768** |
| **Total membership** | **239,362** | **26,892** | **266,254** |

### *Contributions*

Contributions to UCRP are based upon rates determined by The Regents. The Regents' funding policy provides for contributions at rates to maintain UCRP on an actuarially sound basis. While the University's independent actuary annually determines the total funding policy contributions, the University is not required to contribute an amount equal to the total funding contribution. The actual contributions and the contribution rates of the University and employees are based on numerous factors, including the availability of funds to the University, the impact of employee contributions on the competitiveness of the University's total remuneration package, and collective bargaining agreements.

The Regents determines the portion of the total contribution to be made by the employer and by the employees, and employee contribution rates for represented employees are subject to collective bargaining. Effective July 1, 2014, employee member and employer contributions were 8.0 percent and 14.0 percent, respectively. Member contributions for the employees in the new benefit tier applicable to employees hired on or after July 1, 2013 are 7.0 percent and the employer rate is uniform across all members.

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

Both current employees and retirees at LBNL participate in UCRP. The University makes contributions to UCRP for LBNL employees and is reimbursed by the DOE based upon rates that are identical to those authorized by The Regents for campus and medical center employees. The University also makes contributions to UCRP for LANL and LLNL retirees and terminated vested members, whose benefits were retained in UCRP at the time the joint ventures were formed. The contributions for the LANL and LLNL are actuarially determined based upon a contractual arrangement with the DOE that incorporates a formula targeted to maintain the LANL and LLNL segments within UCRP at a 100 percent funded level. The University is reimbursed by the DOE for these contributions. To the extent the University has recorded a net pension liability, deferred inflows of resources and deferred outflows of resources that will be reimbursed under DOE contracts, a receivable from the DOE is recorded. As of June 30, 2015 and 2014, the University reported $1.0 billion and $1.2 billion, respectively, as other non-current Department of Energy receivables for pension liabilities. Contributions of $450.3 million and $487.3 million, reported as DOE laboratory revenue and expense in the statement of revenues, expenses and changes in net position, were deposited into UCRP on behalf of DOE for the years ended June 30, 2015 and 2014, respectively.

## Net Pension Liability

All UCRP assets are available to pay any member's benefit. However, assets and liabilities for the campus and medical center segment of UCRP are internally tracked separately from the DOE national laboratory segments of UCRP. The net pension liability for UCRP was as follows:

| *(in thousands of dollars)* | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | UNIVERSITY OF CALIFORNIA |
|---|---|---|---|
| *At June 30, 2015* | | | |
| UCRP net position | $ 46,628,550 | $ 8,426,897 | $ 55,055,450 |
| Total pension liability | 56,271,192 | 9,433,896 | 65,705,091 |
| **Net pension liability** | **$ 9,642,642** | **$1,006,999** | **$10,649,641** |
| *At June 30, 2014* | | | |
| UCRP net position | $ 44,484,494 | $8,299,373 | $ 52,783,867 |
| Total pension liability | 51,509,640 | 9,019,692 | 60,529,332 |
| **Net pension liability** | **$ 7,025,146** | **$ 720,319** | **$ 7,745,465** |

The University's net pension liability was measured as of June 30 based upon rolling forward the results of the actuarial valuations as of July 1. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. The University's net pension liability was calculated using the following methods and assumptions:

| | 2015 | 2014 |
|---|---|---|
| Inflation | 3.0% | 3.5% |
| Investment rate of return | 7.25 | 7.5 |
| Projected salary increases | 3.8 - 6.2 | 4.3 - 6.8 |
| Cost-of-living adjustments | 2.0 | 2.0 |

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions were changed in 2015 based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The actuarial assumptions used in 2014 were based upon the results of an experience study conducted for the period of July 1, 2006 through June 30, 2010. For active members, inactive members and healthy retirees, the RP-2000 Combined Healthy Mortality Table, projected with scale AA to 2025, with ages set back two years is used. For disabled members, rates are based on the RP-2000 Disabled Retiree Mortality Table, projected with scale AA to 2025, with ages set back two years for males.

The long-term expected investment rate of return assumption for UCRP was determined based on a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

| | TARGET ALLOCATION | LONG-TERM EXPECTED REAL RATE OF RETURN |
|---|---|---|
| Asset class | | |
| U.S. Equity | 28.5% | 6.1% |
| Developed International Equity | 18.5 | 7.0 |
| Emerging Market Equity | 8.0 | 8.6 |
| Core Fixed Income | 12.5 | 0.8 |
| High Yield Bonds | 2.5 | 3.0 |
| Emerging Market Debt | 2.5 | 3.9 |
| TIPS | 4.5 | 0.4 |
| Real Estate | 5.5 | 4.8 |
| Private Equity | 8.0 | 11.2 |
| Absolute Return/Hedge Funds/Real Assets | 9.5 | 4.2 |
| **Total** | **100.0%** | **5.6%** |

## Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2015 and 2014 was 7.25 and 7.5 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRS has sufficient cash in future periods for projected benefit payments for current members. For this purpose, University contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected University contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2015 and 2014.

## Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2015 net pension liability of the University calculated using the June 30, 2015 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

| *(in thousands of dollars)* | 1% DECREASE (6.25%) | CURRENT DISCOUNT (7.25%) | 1% INCREASE (8.25%) |
|---|---|---|---|
| UCRP | $18,201,009 | $10,649,641 | $4,458,805 |
| PERS-VERIP | (27,197) | (29,363) | (31,310) |

## Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources:

| *(in thousands of dollars)* | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | TOTAL UCRP | PERS-VERIP | TOTAL |
|---|---|---|---|---|---|
| *At June 30, 2015* | | | | | |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| Changes of assumptions or other inputs | $ 2,815,280 | $ 158,089 | $ 2,973,369 | | $ 2,973,369 |
| Net difference between projected and actual earnings on pension plan investments | 1,803,216 | 353,970 | 2,157,186 | $2,960 | 2,160,146 |
| **Total** | **$4,618,496** | **$512,059** | **$5,130,555** | **$2,960** | **$5,133,515** |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Difference between expected and actual experience | $ 390,467 | $ 4,004 | $ 394,471 | | $ 394,471 |
| Changes of assumptions or other inputs | 1,375,693 | | 1,375,693 | | 1,375,693 |
| Net difference between projected and actual earnings on pension plan investments | 2,916,324 | 542,095 | 3,458,419 | $4,922 | 3,463,341 |
| **Total** | **$4,682,484** | **$546,099** | **$5,228,583** | **$4,922** | **$5,233,505** |
| *At June 30, 2014* | | | | | |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| Difference between expected and actual experience | | $ 3,418 | $ 3,418 | | $ 3,418 |
| Changes of assumptions or other inputs | $2,072,600 | | 2,072,600 | | 2,072,600 |
| Net difference between projected and actual earnings on pension plan investments | 995,092 | 212,012 | 1,207,104 | $1,909 | 1,209,013 |
| **Total** | **$3,067,692** | **$215,430** | **$3,283,122** | **$1,909** | **$3,285,031** |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Difference between expected and actual experience | $ 407,640 | | $ 407,640 | | $ 407,640 |
| Changes of assumptions or other inputs | 1,874,132 | | 1,874,132 | | 1,874,132 |
| Net difference between projected and actual earnings on pension plan investments | 4,018,023 | $ 740,671 | 4,758,694 | $6,742 | 4,765,436 |
| **Total** | **$6,299,795** | **$740,671** | **$7,040,466** | **$6,742** | **$7,047,208** |

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2015 related to pensions that will be recognized in pension expense during the next five years are as follows:

| *(in thousands of dollars)* | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | TOTAL UCRP | PERS-VERIP | TOTAL |
|---|---|---|---|---|---|
| 2016 | $ 160,111 | $ 123,506 | $ 283,617 | $ (363) | $ 283,254 |
| 2017 | (357,802) | (136,587) | (494,389) | (1,317) | (495,706) |
| 2018 | (595,635) | (82,950) | (678,585) | (783) | (679,368) |
| 2019 | 605,998 | 61,991 | 667,989 | 501 | 668,490 |
| 2020 | 123,340 | | 123,340 | | 123,340 |
| **Total** | **$ (63,988)** | **$ (34,040)** | **$ (98,028)** | **$ (1,962)** | **$ (99,990)** |

### *Defined Contribution Plan*

The University makes DC Plan retirement contributions on the summer or equivalent term salaries of eligible academic employees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, employees must hold academic year appointments and be active members of UCRP or another defined benefit plan to which the University contributes. The contribution rate is 7.0 percent of eligible salary, of which 3.5 percent is University-paid and 3.5 percent is employee-paid, both on a pretax basis. The University may also contribute on behalf of eligible senior managers. Employer contributions to the DC Plan were $4.9 million and $4.7 million for the years ended June 30, 2015 and 2014, respectively.

The DC Plan Pretax Account also includes mandatory contributions from part-time, seasonal and temporary employees at the University who are not currently participating in UCRP or another defined benefit plan to which the University contributes (Safe Harbor participants). Safe Harbor participation includes certain University student employees and resident aliens with F-1 and J-1 visa status. Safe Harbor participants contribute 7.5 percent of their gross salary (up to the Social Security wage base) to the Plan in lieu of deductions for Social Security taxes.

All University employees, except students who normally work fewer than 20 hours per week, are eligible to make voluntary contributions to the DC Plan After-Tax Account and defer taxation on the earnings until the accumulations are withdrawn. The maximum amount participants may contribute annually to the After-Tax Account is determined by the IRC §415(c) limit. The University may also make DC Plan contributions on behalf of eligible senior managers.

The Supplemental Defined Contribution Plan (SDC Plan) accepts employer contributions in behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. There were no assets or employer contributions to the SDC Plan for the years ended June 30, 2015 and 2014.

### *Tax Deferred 403(b) Plan*

The University's Tax-Deferred 403(b) Plan (403(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 403(b) Plan were $1.5 million each for the years ended June 30, 2015 and 2014.

### *457(b) Deferred Compensation Plan*

The University's 457(b) Deferred Compensation Plan (457(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. There were no employer contributions to the 4 57(b) Plan for the years ended June 30, 2015 and 2014.

Participants in the DC Plan, the SDC Plan, the 403(b) Plan and the 457(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Chief Investment Officer. They may also invest account balances in certain mutual funds. The participants' interests in mutual funds is shown separately in the statement of plans' fiduciary net position.

### *University of California PERS–VERIP*

The University of California PERS–VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC–PERS members who elected early retirement under provisions of the Plan. The University contributed to PERS on behalf of these UC–PERS members. As of July 1, 2015, there are 584 retirees or beneficiaries receiving benefits under this voluntary early retirement program.

The University and the DOE laboratories previously made contributions to the Plan sufficient to maintain the promised benefits. The annual required contribution, net obligation to PERS–VERIP and any changes or adjustments to that obligation, are all zero for the years ended June 30, 2015 and 2014.

### *Children's Hospital and Research Center at Oakland Pension Plan*

CHRCO has a noncontributory defined benefit plan subject to the single employer defined benefit under ERISA rules that substantially covers all full-time employees if they work 1,000 hours or more in a twelve-month eligibility period.

The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2015: 3.0 percent inflation, 7.0 percent investment rate of return, 3.5 percent projected salary increases through 2017, 4.0 percent afterward and no cost-of-living adjustments. The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2014: 3.0 percent inflation, 7.2 percent investment rate of return, 3.5 percent projected salary increases and no cost of living adjustments.

Membership in the CHRCO Plan consisted of the following at June 30, 2015:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 737 |
| Inactive members entitled to, but not yet receiving benefits | 1,057 |
| Active members | 1,976 |
| **Total membership** | **3,770** |

### *Contributions*

Employer contributions are determined under IRC Section 430. Employees are not required or permitted to contribute to the Plan.

### *Net Pension Liability*

The net pension liability for Children's Hospital was measured as of June 30, 2015, and the total pension liability was determined by an actuarial valuation as of January 1, 2015 updated to June 30, 2015. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an experience review conducted during FY 2015. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are as follows:

| | PORTFOLIO PERCENTAGE | PROJECTED REAL RATE OF RETURN |
|---|---|---|
| Asset class | | |
| U.S. Equity | 59.5% | 5.4% |
| Developed International Equity | 8.2% | 5.9% |
| Emerging Market Equity | 7.7% | 9.5% |
| Core Fixed Income | 24.6% | 1.5% |
| **Total** | **100.0%** | |

### *Discount Rate*

The discount rate used to measure the total pension liability was 7.0 percent and 7.25 percent for June 30, 2015 and 2014, respectively. The projection of cash flows used to determine the discount rate assumes that Children's Hospital will make contributions to the Plan under IRC Section 430's minimum requirements for a period of eight years, and that all future assumptions are met. Based on these assumptions, the pension Plan's fiduciary net position is projected to be available to make all projected future benefit payments for current active and inactive employees.

### *Sensitivity of the Net Pension Liability to the Discount Rate Assumption*

The following presents the June 30, 2015 net pension liability calculated using the June 30, 2015 discount rate assumption of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

| *(in thousands of dollars)* | 1% DECREASE (6.0%) | CURRENT DISCOUNT (7.0%) | 1% INCREASE (8.0%) |
|---|---|---|---|
| Net pension liability (asset) | $108,478 | $50,675 | $3,162 |

*Deferred Outflows of Resources and Deferred Inflows of Resources*

As of June 30, deferred outflows of resources and deferred inflows of resources were as follows:

| *(in thousands of dollars)* | 2015 | 2014 |
|---|---|---|
| **Deferred Outflows of Resources** | | |
| Difference between expected and actual experience | $ 4,720 | $ 5,445 |
| Changes of benefit terms | 317 | |
| Changes of assumptions | 30,373 | |
| Net difference between projected and actual earnings on pension plan investments | 10,285 | |
| **Total** | **$45,695** | **$ 5,445** |
| **Deferred Inflows of Resources** | | |
| Net difference between projected and actual earnings on pension plan investments | $22,319 | $30,653 |
| **Total** | **$22,319** | **$30,653** |

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

| *(in thousands of dollars)* | |
|---|---|
| *Year Ending June 30* | |
| 2016 | $ 785 |
| 2017 | 785 |
| 2018 | 3,470 |
| 2019 | 8,783 |
| 2020 | 6,423 |
| Thereafter | 3,130 |
| **Total** | **$23,376** |

## 15. RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their eligible family members (retirees) of the University of California and its affiliates. The Regents has the authority to establish and amend the plans.

Membership in UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at July 1, 2014, the date of the latest actuarial valuation:

| | CAMPUSES AND MEDICAL CENTERS | LBNL | UNIVERSITY OF CALIFORNIA |
|---|---|---|---|
| Retirees who are currently receiving benefits | 38,488 | 1,747 | 40,235 |
| Employees who may receive benefits at retirement | 118,733 | 3,168 | 121,901 |
| **Total membership** | **157,221** | **4,915** | **162,136** |

### *Contribution Policy*

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

Contributions toward medical and dental benefits are shared between the University and the retiree. Contributions toward wellness benefits are made by the University. The University does not contribute toward the cost of other benefits available to retirees. Retirees who are employed by the University after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the University's contribution based on age and years of service. Retirees are eligible for the maximum University contribution at age 65 with 20 or more years of service. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least 5 years of service. Retirees employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service.

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

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

### *Retiree Health Benefit Expense and Obligation for Retiree Health Benefits*

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

The University's annual retiree health benefit expense and related information for the year ended June 30, 2015, segregated between the University and the DOE responsibility, is as follows:

*(in thousands of dollars)*

| | CAMPUSES AND MEDICAL CENTERS | | LBNL | | UNIVERSITY OF CALIFORNIA | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Actuarial valuation date | July 1, 2014 | July 1, 2013 | July 1, 2014 | July 1, 2013 | July 1, 2014 | July 1, 2013 |
| Annual required contribution | $1,776,060 | $1,639,263 | $ 57,510 | $ 55,310 | $1,833,570 | $1,694,573 |
| Interest on obligations for retiree health benefits | 450,848 | 404,837 | 13,370 | 11,918 | 464,218 | 416,755 |
| Adjustment to annual required contribution | (952,690) | (827,452) | (28,154) | (24,290) | (980,844) | (851,742) |
| **Annual retiree health benefit cost** | **1,274,218** | **1,216,648** | **42,726** | **42,938** | **1,316,944** | **1,259,586** |
| University contributions: | | | | | | |
| To UCRHBT | (258,597) | (294,899) | | | (258,597) | (294,899) |
| To health care insurers and administrators | | | (12,793) | (12,643) | (12,793) | (12,643) |
| Implicit subsidy | (91,602) | (85,192) | (4,176) | (3,915) | (95,778) | (89,107) |
| **Total contributions** | **(350,199)** | **(380,091)** | **(16,969)** | **(16,558)** | **(367,168)** | **(396,649)** |
| **Increase in obligations for retiree health benefits** | **924,019** | **836,557** | **25,757** | **26,380** | **949,776** | **862,937** |
| **Obligations for retiree health benefits** | | | | | | |
| Beginning of year | 8,197,230 | 7,360,673 | 243,073 | 216,693 | 8,440,303 | 7,577,366 |
| **End of year** | **$9,121,249** | **$8,197,230** | **268,830** | **243,073** | **9,390,079** | **8,440,303** |
| **Retiree health care reimbursement from the DOE during the year** | | | **12,793** | **12,643** | **12,793** | **12,643** |
| **DOE receivable for obligations for retiree health benefits:** | | | | | | |
| Noncurrent | | | 268,830 | 243,073 | 268,830 | 243,073 |
| **Total** | | | **$268,830** | **$243,073** | **$ 268,830** | **$ 243,073** |

The annual retiree health benefit cost, percentage of the annual retiree health benefit cost contributed to the retiree health benefit plan and the net obligation for retiree health benefits for the University for the year ended June 30, 2015, and the preceding years are as follows:

*(in thousands of dollars)*

| | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | UNIVERSITY OF CALIFORNIA |
|---|---|---|---|
| *Annual retiree health benefit cost:* | | | |
| June 30, 2015 | $1,274,218 | $42,726 | $1,316,944 |
| June 30, 2014 | 1,216,648 | 42,938 | 1,259,586 |
| June 30, 2013 | 1,409,198 | 48,644 | 1,457,842 |
| *Percentage of annual cost contributed:* | | | |
| June 30, 2015 | 27.5% | 39.7% | 27.9% |
| June 30, 2014 | 31.2% | 38.6% | 31.6% |
| June 30, 2013 | 22.1% | 34.8% | 22.6% |
| *Net obligation to the health benefit plan:* | | | |
| June 30, 2015 | $9,121,249 | $268,830 | $9,390,079 |
| June 30, 2014 | 8,197,230 | 243,073 | 8,440,303 |
| June 30, 2013 | 7,360,673 | 216,693 | 7,577,366 |

## *Funded Status*

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment return and health care cost trends. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual rates are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of July 1, 2014 was as follows:

*(in thousands of dollars)*

| | CAMPUSES AND MEDICAL CENTERS | LBNL | UNIVERSITY OF CALIFORNIA |
|---|---|---|---|
| Actuarial value of plan assets | $ 65,184 | | $ 65,184 |
| Actuarial accrued liability | (14,093,786) | $(490,134) | (14,583,920) |
| **Unfunded actuarial accrued liability** | **$(14,028,602)** | **$(490,134)** | **$(14,518,736)** |
| Value of the implicit subsidy included in the actuarial accrued liability | $ 2,713,867 | $ 97,508 | $ 2,811,375 |
| Funded ratio | 0.5% | 0.0% | 0.5% |
| Covered payroll | $ 9,034,755 | $ 265,062 | $ 9,299,817 |
| Unfunded actuarial accrued liability as a percentage of covered payroll | (155.3)% | (184.9)% | (156.1)% |

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

## Actuarial Methods and Assumptions

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

Significant actuarial methods and assumptions used in the valuation were:

- assumed return on investment of 5.5 percent per year, representing the return on the University's assets expected to be used to finance benefits;
- market value of assets smoothed over a five-year period;
- health care cost trend rate ranging from 7.3 to 10.0 percent for non-Medicare and 6.6 to 8.3 percent for Medicare initially, depending on the type of plan, reduced by increments to an ultimate rate of 5 percent over 15 years;
- projected inflation at 3.5 percent;
- amortization of the initial unfunded actuarial accrued liability over 30 years as a flat dollar amount on a closed basis;
- amortization of future actuarial gains and losses over 15 years as a flat dollar amount on a closed basis;
- amortization of the effects of changes in the plan design, or changes in assumptions, over 30 years as a flat dollar amount on a closed basis;
- entry age normal level-dollar actuarial cost method;
- future life expectancy based upon recent group mortality experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

## 16. ENDOWMENTS AND GIFTS

Endowments and gifts are held and administered either by the University or by the discretely presented component units.

### University of California

The value of endowments and gifts held and administered by the University, exclusive of income distributed to be used for operating purposes, at June 30, 2015 and 2014 are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | | | |
|---|---|---|---|---|
| | RESTRICTED NONEXPENDABLE | RESTRICTED EXPENDABLE | UNRESTRICTED | TOTAL |
| *At June 30, 2015* | | | | |
| Endowments | $ 1,028,070 | $ 2,751,560 | $ 4,935 | $ 3,784,565 |
| Funds functioning as endowments | | 2,451,238 | 2,208,311 | 4,659,549 |
| Annuity and life income | 18,445 | 9,279 | | 27,724 |
| Gifts | | 1,138,613 | 24,531 | 1,163,144 |
| **University endowments and gifts** | **$1,046,515** | **$6,350,690** | **$2,237,777** | **$9,634,982** |
| *At June 30, 2014* | | | | |
| Endowments | $1,001,502 | $2,658,492 | $ 5,040 | $3,665,034 |
| Funds functioning as endowments | | 2,388,077 | 1,774,858 | 4,162,935 |
| Annuity and life income | 12,068 | 17,233 | | 29,301 |
| Gifts | | 1,098,390 | 25,188 | 1,123,578 |
| **University endowments and gifts** | **$1,013,570** | **$6,162,192** | **$1,805,086** | **$8,980,848** |

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs is subject to the approval of The Regents and amounted to $2.3 billion and $2.1 billion at June 30, 2015 and 2014, respectively.

The portion of investment returns earned on endowments held by the University and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to the campuses from endowments held by the University was $235.2 million and $228.7 million for the years ended June 30, 2015 and 2014, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned during the year, was $196.7 million and $197.8 million for the years ended June 30, 2015 and 2014, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was $549.0 million and $527.4 million at June 30, 2015 and 2014, respectively.

## Discretely Presented Component Units

The value of endowments and gifts held by the discretely presented component units and administered by each of their independent Board of Trustees at June 30 are as follows:

*(in thousands of dollars)*

| | DISCRETELY PRESENTED COMPONENT UNITS | | | |
|---|---|---|---|---|
| | RESTRICTED NONEXPENDABLE | RESTRICTED EXPENDABLE | UNRESTRICTED | TOTAL |
| *At June 30, 2015* | | | | |
| Endowments | $3,371,727 | $1,205,679 | | $4,577,406 |
| Funds functioning as endowments | | 1,406,221 | | 1,406,221 |
| Annuity and life income | 75,147 | 60,168 | | 135,315 |
| Gifts | | 1,388,276 | $259,441 | 1,647,717 |
| **Discretely presented component units' endowments and gifts** | **$3,446,874** | **$4,060,344** | **$259,441** | **$7,766,659** |
| *At June 30, 2014* | | | | |
| Endowments | $3,081,899 | $1,205,117 | | $4,287,016 |
| Funds functioning as endowments | | 1,333,831 | | 1,333,831 |
| Annuity and life income | 98,041 | 57,342 | | 155,383 |
| Gifts | | 1,251,864 | $272,054 | 1,523,918 |
| **Discretely presented component units' endowments and gifts** | **$3,179,940** | **$3,848,154** | **$272,054** | **$7,300,148** |

## 17. SEGMENT INFORMATION

The University's medical centers', and CHRCO's revenues, are pledged in support of the outstanding University of California Medical Center Pooled Revenue Bonds. The medical centers' operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care.

Condensed financial statement information related to each of the University's medical centers for the year ended June 30, 2015 is as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA MEDICAL CENTERS | | | | | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|---|---|---|---|
| | DAVIS | IRVINE | LOS ANGELES | SAN DIEGO | SAN FRANCISCO | CHRCO |
| *Year Ended June 30, 2015* | | | | | | |
| Revenue bonds outstanding | $300,269 | $273,415 | $ 709,915 | $663,852 | $836,894 | |
| Related debt service payments | $33,180 | $24,017 | $44,709 | $40,197 | $51,127 | |
| Bonds due serially through | 2047 | 2049 | 2049 | 2048 | 2049 | |
| **CONDENSED STATEMENT OF NET POSITION** | | | | | | |
| Current assets | $ 734,783 | $ 496,762 | $ 1,128,849 | $ 727,802 | $ 834,366 | $229,081 |
| Capital assets, net | 1,003,080 | 727,311 | 1,845,365 | 1,284,776 | 2,136,862 | 268,150 |
| Other assets | 21,540 | | 301,555 | 82,161 | 9,190 | 218,654 |
| **Total assets** | **1,759,403** | **1,224,073** | **3,275,769** | **2,094,739** | **2,980,418** | **715,885** |
| **Total deferred outflows of resources** | **338,097** | **162,808** | **433,959** | **211,728** | **452,960** | **45,695** |
| Current liabilities | 351,615 | 260,713 | 326,049 | 179,233 | 366,633 | 76,893 |
| Long-term debt | 294,564 | 271,824 | 810,389 | 693,410 | 833,600 | |
| Other noncurrent liabilities | 801,568 | 393,664 | 1,026,374 | 501,574 | 1,004,772 | 130,831 |
| **Total liabilities** | **1,447,747** | **926,201** | **2,162,812** | **1,374,217** | **2,205,005** | **207,724** |
| **Total deferred inflows of resources** | **317,284** | **165,393** | **343,940** | **203,140** | **401,293** | **22,319** |
| Net investment in capital assets | 683,085 | 441,838 | 1,027,330 | 648,136 | 1,299,326 | 212,235 |
| Restricted | | | 12,213 | | 7,329 | 56,934 |
| Unrestricted | (350,616) | (146,551) | 163,433 | 80,974 | (479,575) | 262,368 |
| **Total net position** | **$ 332,469** | **$ 295,287** | **$1,202,976** | **$ 729,110** | **$ 827,080** | **$531,537** |

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA MEDICAL CENTERS | | | | | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|---|---|---|---|
| | DAVIS | IRVINE | LOS ANGELES | SAN DIEGO | SAN FRANCISCO | CHRCO |
| **CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION** | | | | | | |
| Operating revenues | $1,723,966 | $ 933,164 | $2,253,866 | $1,486,641 | $2,683,452 | $575,546 |
| Operating expenses | (1,587,012) | (806,732) | (1,887,671) | (1,235,574) | (2,486,844) | (505,957) |
| Depreciation expense | (85,078) | (57,710) | (130,946) | (56,647) | (128,034) | (36,882) |
| **Operating income** | **51,876** | **68,722** | **235,249** | **194,420** | **68,574** | **32,707** |
| Nonoperating revenues (expenses), net | (5,262) | (5,170) | (11,833) | 2,789 | 5,391 | 23,421 |
| **Income before other changes in net position** | **46,614** | **63,552** | **223,416** | **197,209** | **73,965** | **56,128** |
| Health systems support | (32,323) | (60,899) | (130,170) | (100,651) | (73,813) | (2,437) |
| Transfers from University, net | (10,563) | | | 6,558 | | |
| Changes in allocation for pension payable to University | 3,137 | 2,715 | 2,822 | (1,136) | (11,704) | |
| Other, including donated assets | 1,398 | 729 | 4,146 | 11,329 | 55,963 | 46,692 |
| **Increase in net position** | **8,263** | **6,097** | **100,214** | **113,309** | **44,411** | **100,383** |
| Net position - beginning of year | 324,206 | 289,190 | 1,102,762 | 615,801 | 782,669 | 431,154 |
| **Net position - June 30, 2015** | **$ 332,469** | **$ 295,287** | **$1,202,976** | **$ 729,110** | **$ 827,080** | **$531,537** |

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA MEDICAL CENTERS | | | | | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|---|---|---|---|
| | DAVIS | IRVINE | LOS ANGELES | SAN DIEGO | SAN FRANCISCO | CHRCO |
| **CONDENSED STATEMENT OF CASH FLOWS** | | | | | | |
| Net cash provided (used) by: | | | | | | |
| Operating activities | $ 235,172 | $139,743 | $421,423 | $281,999 | $231,506 | $28,126 |
| Noncapital financing activities | (41,048) | (57,665) | (125,942) | (90,238) | (67,981) | 11,677 |
| Capital and related financing activities | (88,396) | (78,963) | (144,019) | (198,873) | (318,002) | 22,860 |
| Investing activities | 5,521 | 7,610 | (237,783) | 154,497 | 17,910 | (51,069) |
| **Net increase (decrease) in cash and cash equivalents** | **111,249** | **10,725** | **(86,321)** | **147,385** | **(136,567)** | **11,594** |
| Cash and cash equivalents* – June 30, 2014 | 298,005 | 272,032 | 821,098 | 254,660 | 495,361 | 11,674 |
| **Cash and cash equivalents* – June 30, 2015** | **$409,254** | **$282,757** | **$734,777** | **$402,045** | **$358,794** | **$23,268** |

**Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool, except for CHRCO as of June 30, 2014.*

Condensed financial statement information related to each of the University's medical centers for the year ended June 30, 2014 is as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA MEDICAL CENTERS | | | | | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|---|---|---|---|
| | DAVIS | IRVINE | LOS ANGELES | SAN DIEGO | SAN FRANCISCO | CHRCO |
| *Year Ended June 30, 2014* | | | | | | |
| Revenue bonds outstanding | $ 318,059 | $ 281,310 | $ 719,140 | $ 668,847 | $ 840,654 | |
| Related debt service payments | $33,198 | $23,885 | $72,696 | $33,413 | $54,214 | |
| Bonds due serially through | 2047 | 2049 | 2049 | 2048 | 2049 | |
| **CONDENSED STATEMENT OF NET POSITION** | | | | | | |
| Current assets | 609,403 | 460,431 | 1,230,184 | 588,347 | 894,050 | $129,743 |
| Capital assets, net | 1,044,562 | 734,373 | 1,871,926 | 1,117,283 | 1,913,427 | 283,632 |
| Other assets | 20,638 | 3,232 | 45,603 | 231,812 | 16,703 | 217,857 |
| **Total assets** | **1,674,603** | **1,198,036** | **3,147,713** | **1,937,442** | **2,824,180** | **631,232** |
| **Total deferred outflows of resources** | **251,415** | **124,238** | **329,765** | **139,639** | **256,587** | **5,445** |
| Current liabilities | 259,435 | 231,659 | 308,007 | 167,397 | 283,370 | 82,943 |
| Long-term debt | 323,879 | 285,473 | 820,828 | 677,705 | 837,536 | |
| Other noncurrent liabilities | 600,375 | 301,596 | 787,976 | 353,201 | 681,826 | 91,927 |
| **Total liabilities** | **1,183,689** | **818,728** | **1,916,811** | **1,198,303** | **1,802,732** | **174,870** |
| **Total deferred inflows of resources** | **418,123** | **214,356** | **457,905** | **262,977** | **495,366** | **30,653** |
| Net investment in capital assets | 697,588 | 431,649 | 1,042,789 | 634,869 | 1,075,700 | 224,314 |
| Restricted | | 3,232 | 12,670 | | 9,959 | 53,353 |
| Unrestricted | (373,382) | (145,691) | 47,303 | (19,068) | (302,990) | 153,487 |
| **Total net position** | **$ 324,206** | **$ 289,190** | **$1,102,762** | **$ 615,801** | **$ 782,669** | **$431,154** |

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA MEDICAL CENTERS | | | | | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|---|---|---|---|
| | DAVIS | IRVINE | LOS ANGELES | SAN DIEGO | SAN FRANCISCO | CHRCO |
| **CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION** | | | | | | |
| Operating revenues | $ 1,590,227 | $ 888,775 | $ 1,988,037 | $ 1,292,864 | $ 2,390,273 | $428,176 |
| Operating expenses | (1,447,553) | (746,475) | (1,738,753) | (1,089,799) | (2,132,346) | (454,066) |
| Depreciation expense | (85,928) | (65,366) | (126,069) | (56,149) | (98,523) | (29,940) |
| **Operating income (loss)** | **56,746** | **76,934** | **123,215** | **146,916** | **159,404** | **(55,830)** |
| Nonoperating revenues (expenses), net | (9,761) | (10,940) | (20,098) | (2,810) | 22,400 | 26,474 |
| **Income (loss) before other changes in net position** | **46,985** | **65,994** | **103,117** | **144,106** | **181,804** | **(29,356)** |
| Health systems support | (38,256) | (60,386) | (117,082) | (57,007) | (61,279) | |
| Transfers from University, net | (5,077) | (546) | | (8,530) | | |
| Changes in allocation for pension payable to University | (29) | 44 | (4,759) | (645) | 8,973 | |
| Other, including donated assets | 944 | 36,339 | 7,592 | 17,230 | 254,529 | 41,628 |
| **Increase (decrease) in net position** | **4,567** | **41,445** | **(11,132)** | **95,154** | **384,027** | **12,272** |
| Net position - beginning of year | 319,639 | 247,745 | 1,113,894 | 520,647 | 398,642 | 418,882 |
| **Net position – June 30, 2014** | **$ 324,206** | **$ 289,190** | **$ 1,102,762** | **$ 615,801** | **$ 782,669** | **$431,154** |
| | | | | | | |
| **CONDENSED STATEMENT OF CASH FLOWS** | | | | | | |
| Net cash provided (used) by: | | | | | | |
| Operating activities | $ 181,224 | $ 223,315 | $ 357,784 | $ 196,541 | $ 287,903 | $ (15,152) |
| Noncapital financing activities | (50,406) | (60,923) | (116,865) | (65,537) | (61,279) | 9,194 |
| Capital and related financing activities | (101,334) | (70,113) | (135,114) | 154,569 | (170,831) | (38,223) |
| Investing activities | 13,912 | 20,923 | 14,550 | (216,465) | 26,082 | 22,503 |
| **Net increase (decrease) in cash and cash equivalents** | **43,396** | **113,202** | **120,355** | **69,108** | **81,875** | **(21,678)** |
| Cash and cash equivalents* – June 30, 2013 | 254,609 | 158,830 | 700,743 | 185,552 | 413,486 | 33,352 |
| **Cash and cash equivalents* – June 30, 2014** | **$ 298,005** | **$ 272,032** | **$ 821,098** | **$ 254,660** | **$ 495,361** | **$ 11,674** |

**Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool, except for CHRCO as of June 30, 2014.*

Summarized financial information for each medical center is from their separately issued audited financial statements. Certain revenue, such as financial support from the state for clinical teaching programs, is classified as state educational appropriations rather than medical center revenue in the University's statement of revenues, expenses and changes in net position. However, in the medical centers' audited financial statements and for segment reporting purposes, these revenues are classified as operating revenue. Additional information on the individual University of California medical centers can be obtained from their audited financial statements which are available at http://reportingtransparency.universityofcalifornia.edu/.

Multiple purpose and housing system projects (including student and faculty housing, parking facilities, student centers, recreation and events facilities, student health service facilities and certain academic and administrative facilities) are also financed by revenue bonds; however, assets and liabilities are not required to be accounted for separately.

## 18. DISCRETELY PRESENTED COMPONENT UNIT INFORMATION

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University of California.

The Regents are the sole corporate member of CHRCO, now known as UCSF Benioff Children's Hospital Oakland. CHRCO operates a 190-bed inpatient acute care hospital, a neonatal intensive care unit at another medical facility, and outpatient facilities and clinics throughout the Bay Area, as well as a pediatric research institute. CHRCO serves as the primary safety net health care provider for children in Contra Costa and Alameda counties, and is one of only two pediatric trauma centers in the greater San Francisco Bay Area. Following its affiliation with UCSF, CHRCO has retained its separate corporate status, its federal and state tax exemptions, separate hospital licensure, and Medicare and Medi-Cal enrollment. San Francisco Medical Center also provides certain management services to CHRCO.

Condensed financial statement information related to the University's discretely presented component units, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the year ended June 30, 2015 is as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | | | | DISCRETELY PRESENTED COMPONENT UNIT | |
|---|---|---|---|---|---|---|---|
| | BERKELEY | SAN FRANCISCO | LOS ANGELES | ALL OTHER | SUBTOTAL | CHRCO | TOTAL |
| **CONDENSED STATEMENT OF NET POSITION** | | | | | | | |
| Current assets | $ 95,926 | $ 265,038 | $ 417,901 | $ 209,098 | $ 987,963 | $ 229,081 | $1,217,044 |
| Noncurrent assets | 1,831,878 | 1,219,128 | 2,263,466 | 1,745,627 | 7,060,099 | 486,804 | 7,546,903 |
| **Total assets** | **1,927,804** | **1,484,166** | **2,681,367** | **1,954,725** | **8,048,062** | **715,885** | **8,763,947** |
| **Total deferred outflows of resources** | | | | | | **45,695** | **45,695** |
| Current liabilities | 15,759 | 20,149 | 239,404 | 44,794 | 320,106 | 76,893 | 396,999 |
| Noncurrent liabilities | 76,437 | 37,383 | 31,641 | 30,738 | 176,199 | 130,831 | 307,030 |
| **Total liabilities** | **92,196** | **57,532** | **271,045** | **75,532** | **496,305** | **207,724** | **704,029** |
| **Total deferred inflows of resources** | | | **1,428** | | **1,428** | **22,319** | **23,747** |
| Net investment of capital assets | | | | | | 212,235 | 212,235 |
| Restricted | 1,834,400 | 1,426,199 | 2,328,472 | 1,863,356 | 7,452,427 | 56,934 | 7,509,361 |
| Unrestricted | 1,208 | 435 | 80,422 | 15,837 | 97,902 | 262,368 | 360,270 |
| **Total net position** | **$1,835,608** | **$1,426,634** | **$2,408,894** | **$1,879,193** | **$7,550,329** | **$531,537** | **$8,081,866** |
| **CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION** | | | | | | | |
| Operating revenues | $ 104,850 | $ 319,621 | $ 192,269 | $ 149,929 | $ 766,669 | $ 575,546 | $ 1,342,215 |
| Operating expenses | (155,007) | (235,131) | (249,873) | (212,305) | (852,316) | (542,839) | (1,395,155) |
| **Operating income (loss)** | **(50,157)** | **84,490** | **(57,604)** | **(62,376)** | **(85,647)** | **32,707** | **(52,940)** |
| Nonoperating revenues | 49,820 | 52,803 | 103,935 | 60,722 | 267,280 | 23,421 | 290,701 |
| **Income (loss) before other changes in net position** | **(337)** | **137,293** | **46,331** | **(1,654)** | **181,633** | **56,128** | **237,761** |
| Permanent endowments | 65,937 | 68,190 | 66,981 | 72,675 | 273,783 | 405 | 274,188 |
| Other | | | | | | 43,850 | 43,850 |
| **Increase in net position** | **65,600** | **205,483** | **113,312** | **71,021** | **455,416** | **100,383** | **555,799** |
| Net position – June 30, 2014 | 1,770,008 | 1,221,151 | 2,295,582 | 1,808,172 | 7,094,913 | 431,154 | 7,526,067 |
| **Net position – June 30, 2015** | **$1,835,608** | **$1,426,634** | **$2,408,894** | **$1,879,193** | **$7,550,329** | **$531,537** | **$8,081,866** |

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | | | | DISCRETELY PRESENTED COMPONENT UNIT | |
|---|---|---|---|---|---|---|---|
| | BERKELEY | SAN FRANCISCO | LOS ANGELES | ALL OTHER | SUBTOTAL | CHRCO | TOTAL |
| **CONDENSED STATEMENT OF CASH FLOWS** | | | | | | | |
| Net cash provided (used) by: | | | | | | | |
| Operating activities | $(62,613) | $(168,396) | $(55,011) | $(65,459) | $(351,479) | $28,126 | $(323,353) |
| Noncapital financing activities | 59,807 | 183,893 | 38,018 | 55,429 | 337,147 | 11,677 | 348,824 |
| Capital and related financing activities | | | | | | 22,860 | 22,860 |
| Investing activities | 3,770 | 10,835 | 18,476 | 8,919 | 42,000 | (51,069) | (9,069) |
| **Net increase (decrease) in cash and cash equivalents** | **964** | **26,332** | **1,483** | **(1,111)** | **27,668** | **11,594** | **39,262** |
| Cash and cash equivalents – June 30, 2014 | 1,704 | 132,740 | 2,615 | 33,549 | 170,608 | 11,674 | 182,282 |
| **Cash and cash equivalents – June 30, 2015** | **$ 2,668** | **$159,072** | **$ 4,098** | **$32,438** | **$198,276** | **$23,268** | **$221,544** |

Condensed financial statement information related to the University's discretely presented component units, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the year ended June 30, 2014 is as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | | | | DISCRETELY PRESENTED COMPONENT UNIT | |
|---|---|---|---|---|---|---|---|
| | BERKELEY | SAN FRANCISCO | LOS ANGELES | ALL OTHER | SUBTOTAL | CHRCO | TOTAL |
| **CONDENSED STATEMENT OF NET POSITION** | | | | | | | |
| Current assets | $ 95,977 | $ 194,935 | $ 398,955 | $ 213,885 | $ 903,752 | $ 129,743 | $ 1,033,495 |
| Noncurrent assets | 1,767,054 | 1,107,410 | 2,157,731 | 1,684,617 | 6,716,812 | 501,489 | 7,218,301 |
| **Total assets** | **1,863,031** | **1,302,345** | **2,556,686** | **1,898,502** | **7,620,564** | **631,232** | **8,251,796** |
| **Total deferred outflows of resources** | | | | | | **5,445** | **5,445** |
| Current liabilities | 15,823 | 65,550 | 227,458 | 58,949 | 367,780 | 82,943 | 450,723 |
| Noncurrent liabilities | 77,200 | 15,644 | 33,646 | 31,381 | 157,871 | 91,927 | 249,798 |
| **Total liabilities** | **93,023** | **81,194** | **261,104** | **90,330** | **525,651** | **174,870** | **700,521** |
| **Total deferred inflows of resources** | | | | | | **30,653** | **30,653** |
| Net investment of capital assets | | | | | | 224,314 | 224,314 |
| Restricted | 1,769,961 | 1,220,718 | 2,191,645 | 1,792,838 | 6,975,162 | 53,353 | 7,028,515 |
| Unrestricted | 47 | 433 | 103,937 | 15,334 | 119,751 | 153,487 | 273,238 |
| **Total net position** | **$1,770,008** | **$1,221,151** | **$2,295,582** | **$1,808,172** | **$7,094,913** | **$431,154** | **$7,526,067** |
| **CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION** | | | | | | | |
| Operating revenues | $ 113,007 | $ 283,049 | $ 284,583 | $ 112,843 | $ 793,482 | $ 428,176 | $ 1,221,658 |
| Operating expenses | (142,268) | (399,134) | (238,890) | (199,814) | (980,106) | (484,006) | (1,464,112) |
| **Operating income (loss)** | **(29,261)** | **(116,085)** | **45,693** | **(86,971)** | **(186,624)** | **(55,830)** | **(242,454)** |
| Nonoperating revenues | 201,198 | 125,832 | 201,134 | 234,048 | 762,212 | 26,474 | 788,686 |
| **Income (loss) before other changes in net position** | **171,937** | **9,747** | **246,827** | **147,077** | **575,588** | **(29,356)** | **546,232** |
| Permanent endowments | 89,467 | 38,467 | 74,000 | 71,569 | 273,503 | | 273,503 |
| Other | | | | | | 41,628 | 41,628 |
| **Increase in net position** | **261,404** | **48,214** | **320,827** | **218,646** | **849,091** | **12,272** | **861,363** |
| Net position – June 30, 2013 | 1,508,604 | 1,172,937 | 1,974,755 | 1,589,526 | 6,245,822 | 418,882 | 6,664,704 |
| **Net position – June 30, 2014** | **$1,770,008** | **$1,221,151** | **$2,295,582** | **$1,808,172** | **$7,094,913** | **$431,154** | **$7,526,067** |

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | | | | DISCRETELY PRESENTED COMPONENT UNIT | |
|---|---|---|---|---|---|---|---|
| | BERKELEY | SAN FRANCISCO | LOS ANGELES | ALL OTHER | SUBTOTAL | CHRCO | TOTAL |
| **CONDENSED STATEMENT OF CASH FLOWS** | | | | | | | |
| Net cash provided (used) by: | | | | | | | |
| Operating activities | $(40,660) | $(222,490) | $(85,375) | $(73,913) | $(422,438) | $(15,152) | $(437,590) |
| Noncapital financing activities | 78,311 | 33,547 | 62,714 | 52,266 | 226,838 | 9,194 | 236,032 |
| Capital and related financing activities | | | | | | (38,223) | (38,223) |
| Investing activities | (38,690) | 222,584 | 23,145 | 19,382 | 226,421 | 22,503 | 248,924 |
| **Net increase (decrease) in cash and cash equivalents** | **(1,039)** | **33,641** | **484** | **(2,265)** | **30,821** | **(21,678)** | **9,143** |
| Cash and cash equivalents – June 30, 2013 | 2,743 | 99,099 | 2,131 | 35,814 | 139,787 | 33,352 | 173,139 |
| **Cash and cash equivalents – June 30, 2014** | **$ 1,704** | **$132,740** | **$ 2,615** | **$ 33,549** | **$170,608** | **$11,674** | **$182,282** |

Additional information on the foundations or CHRCO can be found in the annual reports, which can be obtained by contacting the individual foundation or CHRCO.

## 19. COMMITMENTS AND CONTINGENCIES

### Contractual Commitments

Amounts committed but unexpended for construction projects totaled $516.1 million at June 30, 2015.

The University and UCRS have also made commitments to make investments in certain investment partnerships pursuant to provisions in the various partnership agreements. These commitments at June 30, 2015 totaled $2.3 billion: $0.4 billion and $1.9 billion for the University and UCRS, respectively.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2015 were $243.1 million. The terms of operating leases extend through December 2040.

Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows:

*(in thousands of dollars)*

| | UNIVERSITY OF CALIFORNIA | DISCRETELY PRESENTED COMPONENT UNITS |
|---|---|---|
| *Year Ending June 30* | | |
| 2016 | $180,383 | $3,864 |
| 2017 | 156,799 | 2,965 |
| 2018 | 139,933 | 1,861 |
| 2019 | 103,179 | 1,230 |
| 2020 | 81,155 | 13 |
| 2021-2025 | 175,624 | |
| 2026-2030 | 31,890 | |
| 2031-2035 | 5,956 | |
| 2036-2040 | 4,657 | |
| **Total** | **$879,576** | **$9,933** |

### Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

The University and the discretely presented component units are contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.

As of June 30, 2015, CHRCO had no amounts outstanding under its revolving credit facility for $25.0 million. The interest rate on the credit facility is 1.4 percent as of June 30, 2015 and the facility expires on August 31, 2016.

## REQUIRED SUPPLEMENTARY INFORMATION

### UCRP

The schedule of changes in net pension liability includes multi-year trend information about whether the pension assets are increasing or decreasing over time relative to the pension liabilities. The University's schedule of changes in the net pension liability for UCRP as of June 30 is:

| *(in thousands of dollars)* | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **TOTAL PENSION LIABILITY** | | | | |
| Service cost | $ 1,589,267 | $ 1,519,183 | $ 1,456,761 | $ 1,531,094 |
| Interest on the total pension liability | 4,538,846 | 4,316,728 | 4,112,461 | 3,871,146 |
| Difference between expected and actual experience | (112,155) | (320,624) | (183,253) | (212,758) |
| Changes of assumptions or other inputs | 2,136,793 | | (3,312,815) | 4,923,778 |
| Benefits paid, including refunds of employee contributions | (2,976,992) | (2,687,540) | (2,487,369) | (2,273,071) |
| **Net change in total pension liability** | **5,175,759** | **2,827,747** | **(414,215)** | **7,840,189** |
| Total pension liability - beginning of year | 60,529,332 | 57,701,585 | 58,115,800 | 50,275,611 |
| **Total pension liability - end of year** | **65,705,091** | **60,529,332** | **57,701,585** | **58,115,800** |
| **PLAN NET POSITION** | | | | |
| Contributions - employer | 2,510,046 | 1,580,876 | 810,056 | 1,851,460 |
| Contributions - member | 793,012 | 577,466 | 415,641 | 272,420 |
| Net investment income | 1,993,801 | 8,009,980 | 4,833,339 | 115,863 |
| Benefits paid, including refunds of employee contributions | (2,976,993) | (2,687,540) | (2,487,369) | (2,273,071) |
| Administrative expense | (48,283) | (37,641) | (37,427) | (32,839) |
| **Net change in plan net position** | **2,271,583** | **7,443,141** | **3,534,240** | **(66,167)** |
| Plan net position - beginning of year | 52,783,867 | 45,340,726 | 41,806,486 | 41,872,653 |
| **Plan net position - end of year** | **55,055,450** | **52,783,867** | **45,340,726** | **41,806,486** |
| **Net pension liability - end of year** | **$10,649,641** | **$ 7,745,465** | **$12,360,859** | **$16,309,314** |

The University's schedule of net pension liability for UCRP as of June 30 is:

| *(in thousands of dollars)* | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Total pension liability | $65,705,091 | $60,529,332 | $57,701,585 | $58,115,800 |
| Plan net position | 55,055,450 | 52,783,867 | 45,340,726 | 41,806,486 |
| **Net pension liability** | **$10,649,641** | **$ 7,745,465** | **$12,360,859** | **$16,309,314** |
| Ratio of plan net position to total pension liability | 84% | 87% | 79% | 72% |
| Covered-employee payroll | $10,047,570 | $ 9,372,583 | $ 8,921,077 | $ 8,594,147 |
| Net pension liability as a percentage of covered-employee payroll | 106.0% | 82.6% | 138.6% | 189.8% |

The University's schedule of employer contributions for UCRP as of June 30 is:

*(in thousands of dollars)*

| Year Ended June 30 | Actuarially Determined Contributions | Contributions in Relation to Actuarial Contributions | Contribution Deficiency (Excess) | Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2015 | $2,664,384 | $2,510,046 | $ 154,338 | $10,047,570 | 25% |
| 2014 | 2,472,697 | 1,580,876 | 891,821 | 9,372,583 | 17% |
| 2013 | 2,062,022 | 810,056 | 1,251,966 | 8,921,077 | 9% |
| 2012 | 1,806,205 | 1,851,460 | (45,255) | 8,594,147 | 22% |
| 2011 | 1,695,137 | 1,677,921 | 17,216 | 8,140,629 | 21% |
| 2010 | 454 | 148,445 | (147,991) | 7,973,921 | 2% |
| 2009 | 2,657 | 454 | 2,203 | 7,468,809 | 0% |
| 2008 | 23,934 | 2,657 | 21,277 | 7,612,726 | 0% |
| 2007 | | 23,934 | (23,934) | 8,258,985 | 0% |
| 2006 | | | | 8,149,640 | 0% |

**Notes to Schedule**

Valuation date:
Actuarially calculated contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contributions rates:

| | |
|---|---|
| Actuarial cost method | Entry age normal cost. |
| Amortization method | Level dollar, closed.<br>24.26 years.<br>The July 1, 2010 amortization bases were combined into a single amortization base and amortized over 30 years. Any changes in unfunded actuarial accrued liability ("UAAL") due to actuarial experience gains or losses after July 1, 2010 will be separately amortized over a fixed (closed) 30-year period effective with that valuation. Any changes in UAAL due to a change in actuarial assumptions or plan provisions will be separately amortized over a fixed (closed) 15-year period. Any changes in UAAL due to actuarial experience gains or losses or a change in actuarial assumptions after July 1, 2014 are separately amortized over a fixed (closed) 20-year period. |
| Remaining amortization period | The market value of assets less unrecognized returns in each of the last five years. An unrecognized return is equal to the difference between the actual and the expected returns on a market value basis and is recognized over a five-year period. |
| Inflation | 3.5%. |
| Investment rate of return | 7.5%, net of investment expenses, includes inflation. |
| Projected salary increases | 4.3-6.75%, includes inflation. |
| Cost-of-living adjustments | 2.00%. |
| Mortality | Healthy: RP-2000 Combined Healthy Mortality Table projected with scale AA to 2025, set back two years.<br>Disabled: RP-2000 Disabled Retiree Mortality Table projected with scale AA to 2025. Ages are set back two years for males. |

## PERS - VERIP

The University's schedule of changes in net pension liability for PERS-PLUS 5 Plan as of June 30 is:

| *(in thousands of dollars)* | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **TOTAL PENSION LIABILITY** | | | | |
| Interest on the total pension liability | $ 2,704 | $ 2,857 | $ 3,052 | $ 3,227 |
| Changes of benefit terms | | | | 11,186 |
| Difference between expected and actual experience | 242 | (436) | (241) | 172 |
| Changes of assumptions or other inputs | 1,837 | | | 1,267 |
| Benefits paid, including refunds of employee contributions | (5,081) | (5,169) | (5,278) | (5,368) |
| **Net change in total pension liability** | **(298)** | **(2,748)** | **(2,467)** | **10,484** |
| Total pension liability - beginning of year | 38,360 | 41,108 | 43,575 | 33,091 |
| **Total pension liability - end of year** | **38,062** | **38,360** | **41,108** | **43,575** |
| **PLAN NET POSITION** | | | | |
| Net investment income | 2,550 | 11,035 | 7,144 | 90 |
| Benefits paid, including refunds of employee contributions | (5,081) | (5,169) | (5,278) | (5,368) |
| Administrative expense | (6) | (6) | (7) | (7) |
| **Net change in plan net position** | **(2,537)** | **5,860** | **1,859** | **(5,285)** |
| Plan net position - beginning of year | 69,962 | 64,102 | 62,243 | 67,528 |
| **Plan net position - end of year** | **67,425** | **69,962** | **64,102** | **62,243** |
| **Net pension liability (asset) - end of year** | **$(29,363)** | **$(31,602)** | **$(22,994)** | **$(18,668)** |

The University's schedule of net pension liability (asset) for PERS-PLUS 5 Plan as of June 30 is:

| *(in thousands of dollars)* | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Total pension liability | **$ 38,062** | $ 38,360 | $ 41,108 | $ 43,575 |
| Plan net position | 67,425 | 69,962 | 64,102 | 62,243 |
| **Net pension liability (asset)** | **$(29,363)** | **$(31,602)** | **$(22,994)** | **$(18,668)** |
| Ratio of plan net position to total pension liability (asset) | 177.1% | 182.4% | 155.9% | 142.8% |

The University is not required to make contributions to the PERS-Plus 5 Plan due to its fully funded status.

## CHRCO PENSION PLAN

The schedule of changes in the net pension liability for the CHRCO Pension Plan as of June 30:

| *(in thousands of dollars)* | **2015** | **2014** |
|---|---|---|
| **TOTAL PENSION LIABILITY** | | |
| Service cost | $ 9,448 | $ 9,274 |
| Interest on the total pension liability | 24,683 | 22,453 |
| Changes of benefit terms | 40 | 142 |
| Difference between expected and actual experience | 762 | 2,487 |
| Changes of assumptions or other inputs | 33,105 | |
| Benefits paid, including refunds of employee contributions | (8,082) | (6,994) |
| Other Changes | | |
| **Net change in total pension liability** | **59,956** | **27,362** |
| Total pension liability - beginning of year | 331,276 | 303,914 |
| **Total pension liability - end of year** | **391,232** | **331,276** |
| **PLAN NET POSITION** | | |
| Contributions - employer | 18,000 | 14,500 |
| Contributions - member | | |
| Net investment income | 11,797 | 48,704 |
| Benefits paid, including refunds of employee contributions | (8,082) | (6,994) |
| Administrative expense | (1,222) | (718) |
| **Net change in plan net position** | **20,493** | **55,492** |
| Total plan net position - beginning of year | 320,064 | 264,572 |
| **Total plan net position - end of year** | **340,557** | **320,064** |
| **Net pension liability - end of year** | **$ 50,675** | **$ 11,212** |

The schedule of net pension liability for the CHRCO Pension Plan as of June 30 is:

| *(in thousands of dollars)* | **2015** | **2014** |
|---|---|---|
| Total pension liability | $ 391,232 | $331,276 |
| Plan net position | 340,557 | 320,064 |
| **Net pension liability** | **$ 50,675** | **$ 11,212** |
| Ratio of plan net position to total pension liability | 87.0% | 96.6% |
| Covered-employee payroll | $177,986 | $175,189 |
| Net pension liability as a percentage of covered-employee payroll | 28.5% | 6.4% |

The schedule of employer contributions for the CHRCO Pension Plan as of June 30 is:

| *(in thousands of dollars)* | **2015** | **2014** |
|---|---|---|
| Actuarially calculated employer contributions | $ 12,200 | $ 21,300 |
| Contributions in relation to the actuarially calculated employer contribution | 18,000 | 14,500 |
| **Annual contribution deficiency (excess)** | **$ (5,800)** | **$ 6,800** |
| Covered-employee payroll | $177,986 | $175,189 |
| Actual contributions as a percentage of covered-employee payroll | 10.1% | 8.3% |

**Notes to schedule**

Valuation date:

Actuarially calculated contribution rates are calculated as of January 1 of the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Actuarially determined contribution | The Plan is subject to funding requirements under ERISA. The contribution shown is the IRC Section 430 minimum contribution prior to offset by credit balances prorated for the number of months in the fiscal year. For the period January 1, 2014 to June 30, 2014, the amount shown does not reflect changes in the Highway and Transportation Funding Act of 2014 (HATFA). The contribution for July 1, 2014 to June 30, 2015 includes HATFA. |
| Contributions in relation to the actuarially determined contribution | The amount shown is equal to the contributions contributed to the Plan during the fiscal year shown. |
| Actuarial cost method | Unit Credit Actuarial Cost Method. |
| Amortization method | Level dollar, closed amortization. |
| Remaining amortization period | 7 years for changes in unfunded liabilities that occur each valuation date. |
| Asset valuation method | The actuarial value of assets is equal to the two-year average of Plan asset values as of the valuation date. The two-year average is the average of the two prior years' adjusted market value of assets and the current year's market value of assets. For this purpose, the prior years' market value of assets is adjusted to reflect benefit payments, administrative expenses, contributions and expected returns for the prior years. The resulting actuarial value of assets is adjusted to be within 10% of the market value of assets at the valuation date, as required by IRC Section 430. |
| Inflation | 3.00%. |
| Investment rate of return | 7.0%, net of pension plan investment expenses, including inflation. |
| Projected salary increases | 3.5%, including inflation through 2017, 4.0% afterward. |
| Cost-of-living adjustments | N/A |
| Mortality | RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with generational adjustments for mortality improvements based on Scale AA. |

## Retiree Health Plan

*(in thousands of dollars)*

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY | (DEFICIT) | FUNDED RATIO | COVERED PAYROLL | (DEFICIT) PAYROLL | IMPLICIT SUBSIDY INCLUDED IN ACTUARIAL ACCRUED LIABILITY |
|---|---|---|---|---|---|---|---|
| University of California | | | | | | | |
| July 1, 2014 | $65,184 | $14,583,920 | $(14,518,736) | 0.4% | $9,299,817 | (156.1)% | $2,811,375 |
| July 1, 2013 | 44,300 | 13,725,248 | (13,680,948) | 0.3% | 8,836,770 | (154.8)% | 2,666,877 |
| July 1, 2012 | 97,435 | 15,070,721 | (14,973,286) | 0.6% | 8,598,114 | (174.1)% | 2,784,276 |
| Campuses and Medical Centers | | | | | | | |
| July 1, 2014 | $65,184 | $14,093,786 | $(14,028,602) | 0.5% | $9,034,755 | (155.3)% | $2,713,867 |
| July 1, 2013 | 44,300 | 13,253,215 | (13,208,915) | 0.3% | 8,569,794 | (154.1)% | 2,571,587 |
| July 1, 2012 | 97,435 | 14,559,017 | (14,461,582) | 0.7% | 8,333,654 | (173.5)% | 2,686,521 |
| DOE National Laboratories | | | | | | | |
| July 1, 2014 | | $490,134 | $(490,134) | 0.0% | $265,062 | (184.9)% | $97,508 |
| July 1, 2013 | | 472,033 | (472,033) | 0.0% | 266,976 | (176.8)% | 95,290 |
| July 1, 2012 | | 511,704 | (511,704) | 0.0% | 264,460 | (193.5)% | 97,755 |

UNIVERSITY OF CALIFORNIA

# Regents and Officers

## APPOINTED REGENTS

*(In alphabetical order of last name)*

Richard C. Blum
William De La Pena
Gareth Elliott
Russell S. Gould
Eddie R. Island
George D. Kieffer
Sherry L. Lansing
Monica Lozano
Hadi Makarechian
Eloy Ortiz Oakley
Norman J. Pattiz
John A. Perez
Bonnie M. Reiss
Frederick R. Ruiz
Richard Sherman
Bruce D. Varner
Paul Wachter
Charlene R. Zettel

## EX OFFICIO REGENTS

Jerry Brown, *Governor of California*
Gavin Newsom, *Lieutenant Governor*
Toni Atkins, *Speaker of the Assembly*
Tom Torlakson, *State Superintendent of Public Instruction*
Janet Napolitano, *President of the University*
Yolanda Gorman, *President, Alumni Associations of the University of California*
Rod Davis, *Vice President, Alumni Associations of the University of California*

## REGENTS-DESIGNATE

Harvey Brody, *Treasurer, Alumni Associations of the University of California*
Cynthia So Schroeder, *Secretary, Alumni Associations of the University of California*
Marcela Ramirez, *Student Regent Designate*

## FACULTY REPRESENTATIVES *(non-voting)*

J. Daniel Hare, *Chair, Assembly of the Academic Senate*
James Chalfant, *Vice Chair, Assembly of the Academic Senate*

## OFFICERS OF THE REGENTS

Sheryl Vacca, *Senior Vice President-Chief Compliance and Audit Officer*
Charles F. Robinson, *General Counsel and Vice President-Legal Affairs*
Jagdeep Singh Bachher, *Chief Investment Officer and Vice President-Investments*
Anne Shaw, *Secretary and Chief of Staff*

## OFFICE OF THE PRESIDENT

Janet Napolitano, *President of University*
Aimée Dorr, *Provost and Executive Vice President-Academic Affairs*
Nathan Brostrom, *Executive Vice President-Chief Financial Officer*
Rachael Nava, *Executive Vice President-Chief Operating Officer*
John D. "Jack" Stobo, *Executive Vice President-UC Health*
Julie Henderson, *Senior Vice President-Public Affairs*
Nelson Peacock, *Senior Vice President-Governmental Relations*
Glenda Humiston, *Vice President for Agriculture and Natural Resources*
Dwaine B. Duckett, *Vice President-Human Resources*
Kimberly Budil, *Vice President-Laboratory Management*
Charles F. Robinson, *General Counsel and Vice President-Legal Affairs*
Judy K. Sakaki, *Vice President-Student Affairs*
Sheryl Vacca, *Senior Vice President-Chief Compliance and Audit Officer*
Jagdeep Singh Bachher, *Chief Investment Officer and Vice President-Investments*

## CHANCELLORS

Nicholas B. Dirks, *Berkeley*
Linda Katehi, *Davis*
Howard Gillman, *Irvine*
Gene D. Block, *Los Angeles*
Dorothy Leland, *Merced*
Kim Wilcox, *Riverside*
Pradeep K. Khosla, *San Diego*
Sam Hawgood, *San Francisco*
Henry T. Y. Yang, *Santa Barbara*
George R. Blumenthal, *Santa Cruz*

## DIRECTOR OF DOE LABORATORY

A. Paul Alivisatos, *Director, Lawrence Berkeley National Laboratory*

UNIVERSITY
OF
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University of California
Office of the President
1111 Franklin Street
Oakland, CA 94607

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# APPENDIX C

## SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS

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## APPENDIX C

## SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS

*The following is a summary of certain provisions of the Indenture, the Loan Agreement and the Debt Service Payment Agreement which are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive, and reference should be made to the Indenture, the Loan Agreement or the Debt Service Payment Agreement for a full and complete statement of their respective provisions.*

### DEFINITIONS

**"Accountant's Report"** means a written report or certificate signed by an independent certified public accountant of recognized national standing, or a firm of independent certified public accountants of recognized national standing, selected by the Borrower.

**"Act"** means the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division I of Title 6.7 of the Government Code of the State, commencing with Section 63000, as in effect as of the date of the Indenture and as it may from time to time thereafter be amended or supplemented.

**"Act of Bankruptcy"** means any of the following with respect to any Person: (a) the commencement by such Person of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence an involuntary case against such Person under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, trustee, custodian or liquidator of such Person or such Person's assets shall be appointed in any proceeding brought against the Person or such Person's assets; (e) assignment by such Person for the benefit of its creditors; or (f) the entry by such Person into an agreement of composition with its creditors.

**"Additional Payments"** means the amounts payable to the Issuer, the Trustee or other Persons pursuant to the Loan Agreement.

**"Amendment"** means any amendment or modification of any of the Bond Documents.

**"Authorized Denomination"** means $5,000 or any integral multiple of $5,000 thereof.

**"Authorized Borrower Representative"** means any person who at the time and from time to time may be designated, by written certificate furnished to the Issuer and the Trustee, as a Person authorized to act on behalf of the Borrower. Such certificate shall contain the specimen signature of such Person, shall be signed on behalf of the Borrower by any officer of the Borrower and may designate an alternate or alternates.

**"Authorized Issuer Representative"** means the Executive Director of the Issuer, the Chief Deputy Executive Director of the Issuer, any other designee of the Executive Director of the Issuer and any other person as may be designated and authorized to sign for the Issuer pursuant to a resolution adopted by the Board of Directors of the Issuer.

**"Bankruptcy Code"** means Title 11 of the United States Code, as amended.

**"Beneficial Owner"** means, with respect to any Book-Entry Bond, the beneficial owner of such Bond as determined in accordance with the applicable rules of DTC or any successor securities depository for Book-Entry Bonds.

**"Bond Counsel"** means any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the validity of, and exclusion from gross income for federal tax purposes of interest on, bonds issued by states and political subdivisions and duly admitted to practice law before the highest court of any state of the United States and acceptable to the Issuer.

**"Bond Documents"** means, collectively, the Indenture and the Loan Agreement.

**"Bond Fund"** means the Bond Fund established pursuant to the Indenture.

"**Bond Register**" means the registration books for the ownership of Bonds maintained by the Trustee pursuant to the Indenture.

**"Bond Resolution"** means the resolution of the Issuer adopted on September 27, 2016 pursuant to the Act which authorizes the issuance of the Bonds.

**"Bonds"** means the California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2016A.

**"Book-Entry Bonds"** means any Bonds which are then held in book-entry form as provided in the Indenture.

**"Borrower"** means (i) Sanford Consortium for Regenerative Medicine, a California nonprofit public benefit corporation, and its successors and assigns; and (ii) any surviving, resulting or transferee entity as provided in the Loan Agreement.

"**Borrower Continuing Disclosure Agreement**" means that certain Continuing Disclosure Agreement, dated as of October 6, 2016, between the Borrower and the Trustee, as originally executed or as it may from time to time be supplemented or amended.

**"Business Day"** means a day which is not a Saturday, a Sunday, a day on which banks located in the city in which the Principal Corporate Trust Office of the Trustee are required or authorized to be closed or a day on which the New York Stock Exchange is closed.

**"Certificate of the Borrower"** means a certificate signed by an Authorized Borrower Representative meeting the requirements of the Indenture.

**"Certificate of the Issuer"** means a certificate signed by an Authorized Issuer Representative, meeting the requirements of the Indenture.

**"Certified Resolution"** means a copy of a resolution of the Issuer certified by the Secretary of the Issuer to have been duly adopted by the Issuer and to be in full force and effect on the date of such certification.

**"Closing Date"** means the date of issuance and delivery of the Bonds.

**"Code"** means the Internal Revenue Code of 1986, as amended, or any successor code or law, and any regulations in effect or promulgated thereunder.

**"Collaboratory Agreement"** means the Collaboratory Agreement, dated as of October 28, 2009, as amended, by and among The Regents, the Borrower, La Jolla Institute for Allergy and Immunology, The Burnham Institute for Medical Research, now doing business as the Sanford/Burnham Prebys Medical Discovery Institute, The Salk Institute for Biological Studies and The Scripps Research Institute, as may be amended from time to time pursuant to its terms.

**"Costs of Issuance"** means all items of expense directly or indirectly payable by or reimbursable to the Issuer or the Borrower and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, expenses, initial fees and charges of the Trustee and the Issuer, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds which constitutes a "cost of issuance" within the meaning of Section 147(g) of the Code.

**"Costs of Issuance Fund"** means the fund which is established pursuant to the Indenture.

**"Debt"** means any indebtedness or obligation of the Borrower which, in accordance with generally accepted accounting principles, is classified as a liability on a balance sheet.

**"Debt Service Payment Agreement"** means the Debt Service Payment Agreement, dated as of October 1, 2016 by and between The Regents and the Trustee.

**"Deposit Account Control Agreement"** means each deposit account control agreement entered into by the Borrower, the depository bank named therein and the Trustee, pursuant to the Loan Agreement, as the same may be supplemented, amended or superseded.

**"DTC"** means The Depository Trust Company and its successors and assigns.

**"Electronic Means"** shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

**"Escrow Agreement"** means the Escrow Agreement, dated as of October 1, 2016, between the Borrower and The Bank of New York Mellon Trust Company, N.A., as 2010 Trustee and escrow agent.

**"Event of Default"** as used with respect to the Indenture has the meaning specified in the Indenture, and as used with respect to the Loan Agreement has the meaning specified in therein.

**"Fiscal Year"** means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month period selected and designated as the official Fiscal Year of the Borrower.

**"Gross Revenue Fund"** means each fund by that name established pursuant to the Loan Agreement.

**"Gross Revenues"** means all revenues, income, including investment income, moneys, fees, rates, receipts, rentals, charges, issues and income received by or on behalf of the Borrower from all sources, including without limitation gifts, bequests, grants, devises, investments and contributions (exclusive of those gifts, bequests, grants, devises, investments and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of debt service on any Debt or operating expenses of the Borrower), moneys received from the operation of the Borrower's businesses or the possession of their properties, rentals received from the lease of office space, any payments received pursuant to the Collaboratory Agreement and proceeds derived from (i) insurance or condemnation awards (except to the extent such proceeds are required by the terms of the Loan Agreement (or other agreements with respect to the Debt which the Borrower is permitted to incur, or leases the Borrower is permitted to enter into) to be used for purposes inconsistent with their use for the payment of Loan Payments), (ii) accounts receivable, (iii) instruments, documents, investment property, securities and other investments, (iv) inventory and other tangible and intangible property, (v) research reimbursement/payment program and agreements, (vi) insurance and (vii) accounts, contract rights and other rights and assets now or hereafter owned by the Borrower (exclusive of revenues received with respect to contract rights to the extent specifically restricted by the term of such contract to a particular purpose inconsistent with their use for the payment of debt service on any Debt or operating expenses of the Borrower), and the proceeds thereof, in each case whether now existing or hereafter acquired.

**"Indenture"** means the Indenture of Trust, dated as of October 1, 2016, between the Issuer and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions of the Indenture.

**"Interest Payment Date"** means each May 15 and November 15 of each year, commencing May 15, 2017.

**"Issue Date"** means October 6, 2016.

**"Issuer"** means the California Infrastructure and Economic Development Bank, and its successors and assigns.

**"Loan Agreement"** means the Loan Agreement, dated as of October 1, 2016, between the Issuer and the Borrower and relating to the loan of the proceeds of the Bonds, as originally executed or as it may from time to time be supplemented or amended.

**"Loan Payment"** means any amount that the Borrower is required to pay to the Trustee pursuant to the Loan Agreement as a repayment of the loan of the Bond proceeds made by the Issuer under the Loan Agreement subject to and in accordance with the terms thereof and of the Indenture.

**"Moody's"** means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a nationally-recognized statistical rating organization, then the term "Moody's" shall be deemed to refer to any other nationally-recognized statistical rating organization selected by the Borrower.

**"Net Proceeds"** means the proceeds from insurance or from actual or threatened condemnation or eminent domain actions with respect to the Refunded 2010 Project or any part thereof, less any costs reasonably expended by the Borrower to receive such proceeds.

**"Notice by Mail"** or **"**notice**"** of any action or condition **"**by Mail**"** shall mean a written notice meeting the requirements of the Indenture mailed by first class mail, postage prepaid, to the Owners of specified Bonds, at the addresses shown on the Bond Register.

**"Opinion of Bond Counsel"** means an Opinion of Counsel from a Bond Counsel.

**"Opinion of Counsel"** means a written opinion of counsel (who may be counsel for the Borrower) acceptable to the Issuer and the Borrower.

**"Outstanding,"** when used as of any particular time with reference to the Bonds, means all such Bonds theretofore authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds for the transfer or exchange of which, or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; and

(c) Bonds with respect to which the liability of the Issuer and the Borrower have been discharged to the extent provided in, and pursuant to the requirements of, the Indenture.

**"Owner"** means, as of any time, the registered owner of any Bond as set forth in the Bond Register.

**"Person"** means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

**"Permitted Investments"** means any of the following:

(1) (a) direct nonprepayable, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or direct nonprepayable, noncallable obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause (1)(a) such as CATS, TIGRs, and Stripped Treasury Coupons rated or assessed in the highest Rating Categories by Standard & Poor's and Moody's and held by a custodian for safekeeping on behalf of holders of such securities, or (b) bonds or notes which are exempt from federal income taxes and for the payment of which cash or obligations described in clause (1)(a) of this definition in an amount sufficient to pay the principal of, premium, if any, and interest on such bonds or notes when due have been irrevocably deposited with a trustee or other fiscal depositary and which are rated in the highest Rating Categories by Standard & Poor's and Moody's ("United States Government Securities");

(2) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Bank System, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation, Small Business Administration, Federal Housing Administration, Resolution Funding Corporation or Financing Corporation;

(3) interest bearing time or demand deposits, bank deposit products, deposit accounts, including interest bearing money market accounts, trust funds, trust accounts, overnight bank deposits, certificates of deposit (including those placed by a third party pursuant to an agreement between the Borrower and the Trustee) or savings accounts with banks (including the Trustee and its affiliates) (i) whose deposits are fully insured by the Federal Deposit Insurance Corporation or (ii) whose short term obligations are rated no lower than A-1+ by Standard & Poor's and P-1 by Moody's and that are commercial banks, which deposits or accounts are collateralized as to both principal and accrued interest at 103% by obligations of the kind described in clause (1)(a), held by the Trustee, provided that the bank shall create a valid first perfected security interest for the depositor in such obligations;

(4) banker's acceptances with a maximum term of one year of any bank that has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A1+" by Moody's and "A-1" or "A" or better by Standard & Poor's (including the Trustee and its affiliates) insured by the Federal Deposit Insurance Corporation;

(5) repurchase or reverse repurchase agreements (including those of the Trustee or any of its affiliates) fully secured by collateral security described in clause (1) or (2) of this definition, which collateral (a) is held by the Trustee or an agent thereof during the term of such repurchase or reverse repurchase agreement, (b) is not subject to liens or claims of third parties, (c) is subject to a perfected security interest and (d) has a market value (determined at least once every fourteen days) at least equal to 103% of the amount so invested;

(6) investment agreements with financial institutions rated within the two highest Rating Categories by Moody's and Standard & Poor's at closing; provided that if such ratings fall below the three highest long-term Rating Categories, the investment agreement shall allow the Trustee (at the direction of the Borrower) the option to replace such financial institution or shall provide for such investment to be fully collateralized by investments described in clause (1) above and, provided further that if the Borrower notifies the Trustee of such lowering of ratings and the investments are so collateralized, that the Trustee has a perfected first priority lien on the collateral and such collateral is held by the Trustee or its agent;

(7) money market mutual funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by Standard & Poor's of AAAm-G, AAAm or AAm, or having a rating in the highest investment category granted thereby from Moody's, including, without limitation, any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(8) corporate bonds rated in the highest Rating Category by Moody's and Standard & Poor's; and

(9) commercial paper rated at the time of purchase in the highest Rating Category by Moody's and Standard & Poor's.

**"Principal Corporate Trust Office"** means the corporate trust office of the Trustee as designated in the Indenture or such other office designated by the Trustee from time to time; provided, however, that for transfer, registration, exchange, payment and surrender of Bonds such term means the corporate trust office of or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted, or such other office designated by the Trustee from time to time.

**"Principal Installment"** means, with respect to any Principal Installment Date, the sum of (a) the aggregate amount of principal due with respect to Bonds that mature on such Principal Installment Date, plus (b) the aggregate amount of Sinking Fund Installments due on such Principal Installment Date.

**"Principal Installment Date"** means any date on which any Bonds mature or any date on which any of the Bonds are subject to redemption from mandatory Sinking Fund Installments.

**"Rating Agency"** means, with respect to the Bonds, Moody's or Standard & Poor's to the extent it is then providing or maintaining a rating on such Bonds at the request of the Borrower, or in the event that Moody's or Standard & Poor's no longer maintains a rating on such Bonds, any other nationally recognized rating agency then providing or maintaining a rating on such Bonds approved by the Issuer following consultation with the Borrower.

**"Rating Category"** means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

**"Rebate Fund"** means the Rebate Fund which is established in accordance with the Indenture.

**"Rebate Requirement"** means the amounts required to be rebated to the United States Treasury determined in accordance with the Tax Agreement.

**"Record Date"** means, with respect to each Interest Payment Date, the 15th day (whether or not a Business Day) of the calendar month immediately preceding such Interest Payment Date.

**"Refunded 2010A Bonds"** means the outstanding 2010A Bonds in the aggregate principal amount of $56,210,000.

**"Refunded 2010 Project"** has the meaning set forth in Exhibit A to the Loan Agreement.

**"Regents Continuing Disclosure Agreement"** means that certain Continuing Disclosure Agreement, dated as of October 6, 2016, among The Regents, BLX Group LLC, as dissemination agent, and the Trustee, as originally executed or as it may from time to time be supplemented or amended.

**"Reserved Rights"** means the Issuer's rights to Additional Payments and to notices, indemnities, consultations, approvals, consents, certifications, information, inspections and opinions pursuant to the Indenture, the Loan Agreement, the Debt Service Payment Agreement or the Tax Agreement.

**"Responsible Officer"** of the Trustee means and includes the chairman of the board of directors, the president, every vice president, every assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, any senior associate, any associate or any other officer of the Trustee within the corporate trust office of the Trustee described in the Indenture (the "Corporate Trust Officer") (or any successor corporate trust officer) customarily performing functions similar to those performed by the persons who at the time shall be such officers respectively, or to whom any corporate trust matter is referred because of his or her knowledge of, and familiarity with, a particular subject and having direct responsibility for the administration of the Indenture.

**"Revenues"** means all receipts, installment payments and other income received by the Issuer or the Trustee from the Borrower under the Loan Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund and any account therein), including all Loan Payments, and any other payments made by the Borrower as contemplated by the Loan Agreement; provided, however, that such term shall not include Additional Payments or income or revenue derived in connection with the Reserved Rights.

**"Rule 15c2-12"** means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

**"Secured Debt"** means any Debt secured by a pledge of the Collateral, as such term in defined in the Loan Agreement.

**"Securities Depositories"** means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099, Attn: Call Notification Department, Fax (212) 855-7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Issuer may designate in a Certificate of the Issuer delivered to the Trustee.

**"Serial Bonds"** means Bonds for which no Sinking Fund Installments are established.

**"Sinking Fund Installments"** means, with respect to the Bonds, the amounts set forth in the Indenture, subject to the credits provided therein.

**"Standard & Poor's"** means S&P Global Ratings, a Standard & Poor's Financial Services LLC business, which is a subsidiary of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally-recognized securities rating agency selected by the Borrower.

**"State"** means the State of California.

**"Supplemental Indenture"** means any indenture amending or supplementing the Indenture duly authorized and entered into between the Issuer and the Trustee in accordance with the provisions of the Indenture.

"**Surplus Account**" means the account by that name within the Bond Fund established pursuant to the Indenture.

**"Tax Agreement"** means the Tax Certificate and Agreement related to the Bonds, dated as of the Issue Date, by and between the Issuer and the Borrower, as the same may be amended from time to time.

**"Tax-Exempt"** means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the holders thereof (other than any holder who is a "substantial user" of facilities financed with such obligations or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

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

**"Trustee"** means The Bank of New York Mellon Trust Company, N.A., a national banking association organized under the laws of the United States of America, and its successors and assigns or any successor Trustee appointed pursuant to the Indenture.

**"United States Government Securities"** has the meaning given such term in clause (1)(a) of the definition of "Permitted Investments" above.

**"Written Order of the Issuer"** and **"Written Request of the Issuer"** mean, respectively, a written order or request signed by or on behalf of the Issuer by an Authorized Issuer Representative.

**"Written Request of the Borrower"** means a written order or request signed by or on behalf of the Borrower by an Authorized Borrower Representative.

**"Yield"** shall have the meaning ascribed to such term by Section 148(h) of the Code.

**"2010A Bonds"** means the California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2010A issued under the 2010 Indenture, currently outstanding in the aggregate principal amount of $56,210,000.

**"2010 Trustee"** means The Bank of New York Mellon Trust Company, N.A.

**"2010 Indenture"** means the Indenture of Trust, dated as of May 1, 2010, between the California Infrastructure and Economic Development Bank and The Bank of New York Mellon Trust Company, N.A.

## THE INDENTURE

### Pledge and Assignment

Pledge and Assignment. (a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and all amounts, including the proceeds of the sale of the Bonds (but excluding any Additional Payments paid to the Issuer by the Borrower pursuant to the Loan Agreement) in the funds or accounts established and held by the Trustee under the Indenture (other than the Rebate Fund), are irrevocably pledged to the punctual payment of the principal of and interest on the Bonds. Said pledge shall constitute a first lien on the Revenues and the other assets pledged therefor pursuant to the Indenture for the payment of the Bonds in accordance with the terms of the Indenture. All Revenues and the other assets pledged under the Indenture shall be held in trust for the benefit of the Owners from time to time of the Bonds but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

(b) The Issuer transfers in trust, grants a security interest in, assigns and sets over to the Trustee, for the benefit of the Owners from time to time of the Bonds, to the extent of its interest therein, all of the Revenues and the other amounts pledged in subsection (a) above and any and all rights and privileges, other than the Reserved Rights, it has under the Loan Agreement, including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest; and any Revenues collected or received by the Issuer shall be deemed to be held, and to have been collected or received by the Issuer for the benefit of the Owners from time to time of the Bonds and shall forthwith be paid by the Issuer to the Trustee. The assignment under the Indenture is to the Trustee solely in its capacity as Trustee under the Indenture and subject to the provisions of the Indenture and in taking or refraining from taking any action under the Loan Agreement pursuant to such assignment, the Trustee shall be entitled to the protections and limitations from liability afforded it as Trustee under the Indenture. The Trustee also shall be entitled to (subject to the provisions of the Indenture) take all steps, actions and proceedings reasonably necessary in its judgment (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the Loan Agreement, and any other security agreement with respect to the Loan Agreement, the Refunded 2010 Project, or the Bonds, other than the Tax Agreement, and (2) to assure compliance with all covenants, agreements and conditions on the part of the Issuer contained in the Indenture with respect to the Trustee's receipt of the Revenues. No rights of the Issuer under the Tax Agreement, including those referenced in the Loan Agreement, are assigned to the Trustee.

### Establishment of Funds

Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Sanford Consortium for Regenerative Medicine Costs of Issuance Fund" (the "Costs of Issuance Fund"). The moneys in the Costs of Issuance Fund and the accounts therein shall be held by the Trustee in trust and applied to the payment of Costs of Issuance of the Bonds, upon a requisition filed with the Trustee conforming to the requirements of the Indenture, signed by an Authorized Borrower Representative. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. All payments from the Costs of Issuance Fund shall be reflected in the Trustee's regular accounting statements. Any amounts remaining in the Costs of Issuance Fund six months following the Issue Date shall be transferred to the Bond Fund.

Bond Fund. Upon the receipt thereof, the Trustee shall deposit all Revenues in the **"**Sanford Consortium for Regenerative Medicine Bond Fund**"** (the **"**Bond Fund**"**), which the Trustee shall establish and maintain and hold in trust, and which shall be disbursed and applied only as authorized in the Indenture. Except as provided below and in connection with the investment of moneys and the defeasance of Bonds pursuant to the Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and interest on the Bonds as the same shall become due whether at maturity or upon redemption or acceleration.

The Trustee shall deposit in the Bond Fund from time to time, upon receipt thereof, all Revenues, including Loan Payments received by the Trustee from or on behalf of the Borrower for deposit in the Bond Fund, any income received from the investment of moneys on deposit in the Bond Fund and any other Revenues, including any prepayment amounts received under the Loan Agreement from or for the account of the Borrower; provided, however, that any prepayment of Loan Payments received under the Loan Agreement from or for the account of the Borrower shall be deposited in a separate account within the Bond Fund, which the Trustee shall establish and hold in trust, and which shall be entitled "the Surplus Account," for the purposes of receipt and application of such prepayment, or in such other fund or account held by the Trustee for such purpose in accordance with the Indenture. The moneys in the Surplus Account shall be used and applied (unless some other application of such moneys is requested by the Borrower and would not, in the Opinion of Bond Counsel addressed to the Issuer and the Trustee, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds) to the purchase for cancellation or redemption of Bonds (with the principal amount of the Bonds and maturity to be designated by an Authorized Borrower Representative) in Authorized Denominations, to the maximum degree permissible, and at the earliest possible dates at which such Bonds can be purchased or redeemed. Notwithstanding any provision of the Indenture to the contrary, the moneys in the Surplus Account shall be invested at the written instruction of the Borrower (which instruction shall not direct investment at a yield any higher than the yield on the Outstanding Bonds (unless in the Opinion of Bond Counsel addressed to the Issuer and the Trustee, investment at a higher yield would not in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds)), and all such investment income shall be deposited in such Surplus Account and expended or reinvested as provided above.

In making payments of principal of and interest on the Bonds, the Trustee shall use any Revenues received by the Trustee.

At least six but not more than 30 Business Days before each Interest Payment Date, the Trustee shall determine the amount, if any, credited or to be credited to the Bond Fund during the period from the day after the last Interest Payment Date to the next succeeding Interest Payment Date from any source. The Trustee shall give notice to the Borrower of such amount and the amount of the Loan Payment due, which notice shall be mailed, telecopied or delivered in such a manner that the Borrower will receive such notice by the sixth Business Day before such next succeeding Interest Payment Date. Any verbal notice shall be supplemented by notice given in accordance with the preceding sentence. Failure by the Trustee to give notice pursuant to this paragraph, or the insufficiency of any such notice, shall not affect the payment obligations of the Borrower under the Loan Agreement, including without limitation the timing thereof.

If the Trustee has not received any payment required to be made by the Borrower under the Loan Agreement to pay principal or the redemption price of, or interest on the Bonds by the due date, the Trustee shall immediately notify the Borrower and the Issuer of such insufficiency by Electronic Means. Failure by the Trustee to give notice pursuant to this paragraph, or the insufficiency of any such notice, shall not affect the payment obligations of the Borrower under the Loan Agreement, including without limitation the timing thereof.

Except to the extent that such moneys are required to be: (i) held for the payment of principal of or interest on the Bonds then due and payable or to become due and payable on the next succeeding Principal Installment Date or to effect the defeasance of Bonds pursuant to the Indenture, or (ii) deposited to the Rebate

Funds in accordance with the Tax Agreement, so long as no Event of Default (or any event which would be an Event of Default under the Indenture with the passage of time or the giving of notice or both) exists under the Indenture, on the fifth day after each Interest Payment Date, the Trustee, unless otherwise instructed by the Borrower, shall return to the Borrower (free and clear of the pledge and lien of the Indenture) any moneys then on deposit in the Bond Fund or shall deposit such funds in the Rebate Fund if so instructed by the Borrower.

Investment of Moneys. Subject to the provisions of the Indenture relating to the Rebate Fund, any moneys in any of the funds and accounts established pursuant to the Indenture shall be invested upon the Written Request of the Borrower signed by an Authorized Borrower Representative received at least two (2) business days prior to the settlement date (such direction to specify the particular investment to be made and that such investment is permitted by law), by the Trustee, in Permitted Investments. In the absence of such written direction, the Trustee shall invest solely in those investments listed in (7) of the definition of Permitted Investments; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a Written Request of the Borrower specifying a specific money market fund and, if no such Written Request of the Borrower is so received, the Trustee shall hold such moneys uninvested. Moneys in any fund or account established pursuant to the Indenture shall be invested in Permitted Investments with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable (including Permitted Investments payable at the option of the Owner) not later than the date on which such moneys will be required by the Trustee. Investments in any of the funds or accounts established under the Indenture shall be valued at least once each Fiscal Year at the market value thereof. In determining market value of Permitted Investments, the Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available to it.

Unless otherwise provided in the Indenture, any interest, profit or loss on any investments of moneys in any fund or account established under the Indenture shall be credited or charged to the respective fund or account from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss, fee, tax or other charge resulting from any investment, reinvestment or liquidation under the Indenture. Unless otherwise directed by the Borrower, the Trustee may make any investment permitted under these provisions through or with its own commercial banking or investment departments as principal or agent.

The Issuer and the Borrower by its execution of the Loan Agreement acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Issuer or the Borrower the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the Issuer and the Borrower specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Borrower and, if requested, the Issuer, periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee pursuant to the Indenture.

Amounts Remaining in Funds. The Trustee, unless otherwise instructed by the Borrower, shall transfer to the Borrower (free and clear of the pledge and lien of the Indenture) all amounts remaining in any fund held by the Trustee under the Indenture after payment in full of (i) the Bonds, or after provision for such payment shall have been made, (ii) the fees, charges and expenses of the Trustee and the Issuer due and owing in accordance with the Loan Agreement and the Indenture and (iii) all other amounts required to be paid under the Loan Agreement and the Indenture, including the Rebate Requirement.

Terms Relating to the Debt Service Payment Agreement. Notwithstanding any provisions of the Indenture to the contrary, while the Debt Service Payment Agreement is in effect and The Regents is not in default thereunder, and unless otherwise agreed to in writing by The Regents, the terms and conditions set forth below shall be in effect so long as any of the Bonds are Outstanding.

(a) *Notice of Redemption or Defeasance*. The Trustee shall promptly provide notice to The Regents of any redemption or defeasance of the Bonds.

(b) *Claims Under the Debt Service Payment Agreement*.

(i) In the event that, on the fifth Business Day prior to the payment date on the Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Bonds due on such day, the Trustee shall immediately notify The Regents on the same Business Day in accordance with the Debt Service Payment Agreement by Electronic Means of the amount of the deficiency.

(ii) If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify The Regents.

(iii) The Trustee is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners of the Bonds as follows:

(A) If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Trustee shall (i) execute and deliver to The Regents an instrument prepared by or on behalf of The Regents, in form satisfactory to The Regents, appointing The Regents as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to The Regents of the claims for interest to which such deficiency relates and which are paid by The Regents, (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Debt Service Payment Agreement with respect to the claims for interest so assigned, and (iii) disburse the same to such respective Owners; and

(B) If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Trustee shall (i) execute and deliver to The Regents an instrument prepared by or on behalf of The Regents, in form satisfactory to The Regents, appointing The Regents as agent for such Owner in any legal proceeding related to the payment of such principal and an assignment to The Regents of any of the Bonds surrendered to the Trustee of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Trustee is received), (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Debt Service Payment Agreement payment therefor from the Trustee, and (ii) disburse the same to such Owners.

(c) *Rights of The Regents Following Certain Payments of the Bonds*. Payments with respect to claims for interest on and principal of the Bonds disbursed by the Trustee from proceeds of the Debt Service Payment Agreement shall not be considered to discharge the limited obligation of the Issuer as set forth in the Indenture with respect to such Bonds, and The Regents shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(d) *Other Rights of The Regents*. Irrespective of whether any such assignment is executed and delivered, the Issuer and the Trustee agree for the benefit of The Regents that:

(i) They recognize that to the extent The Regents makes payments, directly or indirectly (as by paying through the Trustee), on account of principal of or interest on the Bonds, The Regents will be subrogated to the rights of such Owners to receive the amount of such principal and interest from the Issuer, with interest thereon as provided and solely from the sources stated in the Indenture and the Bonds; and

(ii) They will accordingly pay to The Regents the amount of such principal and interest, with interest thereon as provided in the Indenture and the Bond, but only from the sources and in the manner provided in the Indenture for the payment of principal of and interest on the Bonds to Owners, and will otherwise treat The Regents as the owner of such rights to the amount of such principal and interest.

(e) *Additional Secured Debt—Disclosure Document*. In connection with the issuance of additional Secured Debt, the Borrower shall deliver to The Regents a copy of the disclosure document, if any, circulated with respect to such additional Secured Debt.

(f) *Amendments of the Bonds or Amendments or Supplements to the Indenture*. Any amendments of the Bonds or amendments or supplements to the Indenture shall also require the prior written consent of The Regents.

(g) *Change in Trustee*. Any appointment of a successor Trustee under the Indenture shall require the prior written consent of The Regents.

(h) *Notices to be Sent to The Regents*. The Regents shall receive notice of the resignation or removal of the Trustee and the appointment of a successor thereto. The Regents shall receive copies of all notices required to be delivered to Owners of the Bonds and, on an annual basis, copies of the Borrower's audited financial statements within 180 days of the end of each Fiscal Year. Any notice that is required to be given to an Owner of a Bond or to the Trustee pursuant to the Indenture shall also be provided to The Regents.

(i) *Limitations on Arrangements to Tender or Purchase the Bonds*. The Trustee shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which the Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Bonds.

(j) *No Acceleration*. There shall be no acceleration of the Bonds upon the occurrence of an Event of Default without the prior written consent of The Regents.

(k) *The Regents as a Third Party Beneficiary*. The Regents is identified as a third party beneficiary under the Indenture.

**Certain Covenants of the Issuer**

Payment of Principal and Interest. The Issuer shall punctually pay, but only out of Revenues and the other assets pledged therefor pursuant to the Indenture, the principal of, premium, if any, and interest on every Bond issued under the Indenture at the times and places and in the manner provided therein and in the Bonds according to the true intent and meaning thereof. All such payments shall be made by the Trustee as provided in the Indenture. The principal of, premium, if any, and interest on the Bonds are payable by the Issuer solely and only from the Revenues, and nothing in the Bonds or the Indenture should be considered as assigning or pledging any other funds or assets of the Issuer, other than such Revenues and the right, title and interest of the Issuer in and to the Loan Agreement (except for Reserved Rights) in the manner and to the extent specified in the Indenture. When and as paid in full, all Bonds shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee, who shall deliver a certificate evidencing such cancellation to the Borrower and the Issuer. The Trustee may retain or destroy such cancelled Bonds.

Extension or Funding of Claims for Interest. In order to prevent any accumulation of claims for interest after maturity, the Issuer shall not, directly or indirectly, extend or assent to the extension of the maturity of any of the Bonds or the time for the payment of any claim for interest on any of the Bonds, and shall not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Issuer, such claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded. Nothing in this paragraph shall be deemed to limit the right of the Issuer to amend the Indenture in a manner consistent with the Indenture or to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not constitute an extension of the maturity of the Bonds as described in this paragraph.

Preservation of Revenues; Rights under the Loan Agreement. The Issuer shall not waive any provision of the Loan Agreement or take any action to interfere with or impair the pledge and assignment under the Indenture of Revenues and the assignment to the Trustee of rights (except Reserved Rights) under the Loan Agreement assigned to the Trustee under the Indenture, or the Trustee's enforcement of any such rights thereunder, without the prior written consent of the Trustee; provided, however, that nothing contained in the Indenture shall obligate the Issuer to take or to refrain from taking any action without receipt by the Issuer of reasonable security or indemnity against the costs, expenses and liabilities which may be incurred thereby. The Trustee may give such written consent, and may itself take any such action, or consent to any Amendment, only in accordance with the provisions of the Indenture relating to modification of the Indenture and the Loan Agreement.

Compliance with Indenture; Performance of Covenants. To the extent it is within the control of the Issuer, the Issuer shall not issue, or permit to be issued, any Bonds secured or payable in any manner out of Revenues or the other assets pledged under the Indenture in any manner other than in accordance with the provisions of the Indenture, and, where it has control over such matters, shall not suffer or permit any default to occur under the Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements thereof. The Issuer covenants that it will faithfully perform on its part at all times any and all covenants, undertakings, stipulations and provisions on its part to be performed contained in the Indenture, in any and every Bond executed, authenticated and delivered thereunder and in all of its proceedings pertaining thereto, subject to the terms thereof.

Tax Covenants; Rebate Fund. The Issuer covenants with all Persons who hold or at any time held Bonds that, to the extent within its control, the Issuer will not directly or indirectly use the proceeds of any of the Bonds or any other funds of the Issuer or take any action to permit the use of the proceeds of any of the Bonds or any other funds of the Issuer or take any other action or omit to take any action it is required to take by the Tax Agreement which will cause any of the Bonds to be "arbitrage bonds" or otherwise subject to federal income taxation by reason of Sections 103 and 141 through 150 of the Code and any applicable regulations promulgated thereunder; provided, however, that nothing contained in the Indenture or in the Tax Agreement shall require the Issuer to use any moneys other than Revenues (to the extent permitted in in the Indenture) to prevent such occurrence. To that end the Issuer covenants to comply with all covenants set forth in the Tax Agreement that are applicable to it, which is incorporated in the Indenture by reference as though fully set forth therein (the Trustee having no duty or obligation to be aware of or adhere to the provisions of the Tax Agreement); provided, however, that with regard to the covenants of the Issuer to act or refuse to act in a certain manner in the future pursuant to this paragraph or the Tax Agreement , the Issuer is relying on the Borrower to act or refuse to act in accordance with the Tax Agreement except to the extent a particular affirmative action by the Issuer is required or prohibited. Any requirement that the Issuer will not permit or allow any action, or similar requirement, shall pertain solely to the actions of the Issuer and the Issuer shall have no obligation to prevent, or attempt to prevent, any action by the Borrower.

The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the "Sanford Consortium for Regenerative Medicine Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Borrower as necessary in order for the Issuer and the Borrower to comply with the terms and requirements of the Tax Agreement. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Agreement), for payment to the United States of America, and none of the Borrower, the Issuer nor the Owners shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by these provisions of the Indenture, by the provisions of the Loan Agreement relating to preserving the Tax-Exempt status of the Bonds and by the Tax Agreement. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the directions of the Borrower, including supplying all necessary information requested by the Borrower and the Issuer in the manner set forth in the Tax Agreement, and shall not be required to take any actions thereunder in the absence of written directions from the Borrower.

Upon receipt of the Borrower's written instructions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States of America, as so directed. In addition, if the Borrower so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Borrower's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement and payment of all other amounts due and owing pursuant to the Loan Agreement shall be withdrawn and remitted to the Borrower upon its written request.

Notwithstanding any provisions in the Indenture relating to rebate and of the Loan Agreement relating to preserving the Tax-Exempt status of the Bonds, if the Borrower shall provide to the Issuer and the Trustee an Opinion of Bond Counsel that any specified action required under such provisions is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Bonds, the Borrower, the

Trustee and the Issuer may conclusively rely on such opinion in complying with the requirements above; and the covenants under the Indenture shall be deemed to be modified to that extent.

Other Liens. So long as any Bonds are Outstanding, the Issuer shall not create any pledge, lien or charge of any type whatsoever upon all or any part of the Revenues or the other assets pledged under the Indenture, other than the lien of the Indenture. Subject to this limitation, the Issuer expressly reserves the right to enter into one or more other indentures for any of its purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes. Notwithstanding anything in this paragraph to the contrary, the Issuer is not prohibited from future assignments of agreements containing the Borrower's pledge of its full faith and credit.

Further Assurances. Except to the extent otherwise provided in the Indenture, the Issuer shall not enter into any contract or take any action by which the rights of the Trustee or the Owners may be impaired and whenever and so often as requested so to do by the Trustee, and at the expense of the Borrower, the Issuer shall promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all of the rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

**Events of Default; Remedies**

Events of Default; Acceleration; Waiver of Default. Each of the following events shall constitute an **"**Event of Default**"** under the Indenture:

(a) Failure to make payment of any installment of interest upon any Bond when such payment shall have become due and payable;

(b) Failure to make due and punctual payment of the principal of any Outstanding Bond when such payment shall have become due and payable, whether at the stated maturity thereof, or upon proceedings for the mandatory redemption thereof from Sinking Fund Installments or upon the maturity thereof by declaration;

(c) The occurrence of an **"**Event of Default**"** under the Loan Agreement, as specified therein; or

(d) Default by the Issuer in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture, other than as referred to in subsections (a) and (b) above, or in the Bonds, and the continuance of such default for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Issuer and the Borrower by the Trustee, or to the Issuer, the Borrower and the Trustee by The Regents or the Owners of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding.

No default specified in (d) above shall constitute an Event of Default unless the Issuer shall have failed to correct such default within the applicable 30-day period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within the applicable period and diligently pursued until the default is corrected, which additional period shall be no later than 180 days from the Issuer's receipt of the original default notice.

Upon the occurrence and continuation of an Event of Default the Trustee, may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding, by notice in writing delivered to the Borrower, with copies of such notice being sent to the Issuer, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under clause (c) or (d) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default; provided, however, that so long as the Debt Service Payment Agreement is in effect and The Regents is not in default thereunder, the Bonds shall not be accelerated without the prior written consent of The Regents. After any such declaration of acceleration of the Bonds the Trustee shall immediately declare all indebtedness payable under the Loan Agreement with respect to the Bonds to be immediately due and payable in accordance with the Loan Agreement and may exercise and enforce such rights as exist under the Loan Agreement.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum which, together with any other amounts then held in the Bond Fund, is sufficient to pay all the principal of such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses (including reasonable attorneys' fees and expenses) of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee in its sole discretion or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (by written notice to the Issuer and to the Trustee) may, on behalf of the Owners of all Bonds, rescind and annul such declaration with respect to the Bonds and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Institution of Legal Proceedings by Trustee. If one or more of the Events of Default under the Indenture shall happen and be continuing, the Trustee in its sole discretion may, and upon the written request of The Regents or the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction in its sole discretion therefor (including with respect to any expenses or liability the Trustee may incur) shall, proceed to protect or enforce its rights or the rights of the Owners under the Act or under the Indenture, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture.

Application of Moneys Collected by Trustee. Any moneys collected by the Trustee from the Borrower, and any moneys held by it under the Indenture (except for funds in the Rebate Fund), on or after the occurrence of an Event of Default shall be applied in the order following, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel, and including amounts payable under any deposit account control agreements) incurred in and about the performance of its powers and duties under the Indenture.

Second: In case none of the principal of the Outstanding Bonds shall have become due and remains unpaid, to the payment of interest in default on the Outstanding Bonds in the order of the maturity thereof, such payments to be made ratably and proportionately to the Persons entitled thereto without discrimination or preference, except as may otherwise be provided in the Indenture.

Third: In case the principal of any of the Outstanding Bonds shall have become due by declaration or otherwise and remains unpaid, first to the payment of interest in default in the order of maturity thereof; and then to the payment of principal of all Outstanding Bonds then due and unpaid; in every instance such payment to be made ratably to the Persons entitled thereto without discrimination or preference, except as may otherwise be provided in the Indenture.

Fourth: To the payment of fees and costs due and owing to the Issuer.

Fifth: To the Borrower, pursuant to the provisions of the Indenture regarding amounts remaining in funds.

Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee, The Regents or of any Owner of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by the Indenture in connection with an Event of Default to the Trustee, The Regents or to the Owners may be exercised from time to time and as often as shall be deemed expedient. In case the Trustee shall have proceeded to enforce any right under the Indenture, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely to the Trustee, then and in every such case the Issuer, the Trustee, The Regents and the Owners of the Bonds, severally and respectively, shall be restored to their former positions and rights under the Indenture in respect to the trust estate; and all remedies, rights and powers of the Issuer, the Trustee, and the Owners of the Bonds shall continue as though no such proceedings had been taken.

Remedies Cumulative. No remedy in the Indenture conferred upon or reserved to the Trustee, The Regents or to any Owner of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity.

Trustee Appointed Agent for Owners. The Trustee is appointed the agent and attorney of the Owners of all Bonds Outstanding under the Indenture for the purpose of filing any claims relating to the Bonds.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of The Regents or Owners of the Bonds, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default under the Indenture, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by The Regents or the Owners of at least a majority in principal amount of the Bonds Outstanding under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

All rights of action under the Indenture or under any of the Bonds secured thereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name as Trustee of an express trust for the equal and ratable benefit of the Owners, subject to the provisions of the Indenture. Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Limitation on Owners' Right to Sue. No Owner shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless: (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Owners of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees and expenses) and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 30 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or her or their action to enforce any right under the Indenture, except in the manner therein provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner therein provided and for the equal benefit of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

The right of any Owner to receive payment of the principal of and interest on such Bond out of Revenues, as provided therein and in the Indenture, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner, notwithstanding any other provision of the Indenture.

Notwithstanding anything to the contrary contained in the Indenture, so long as the Debt Service Payment Agreement is in effect and The Regents is not in default under the terms of the Debt Service Payment Agreement, The Regents shall be deemed the sole Owner for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners are entitled to take pursuant to the provisions of the Indenture pertaining to defaults and remedies.

**The Trustee**

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default under the Indenture, and after the curing or waiving of all Events of Default under the Indenture which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default under the Indenture (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

No provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligent action or its own negligent failure to act or its own willful misconduct, except that:

(a) Prior to the occurrence of any Event of Default under the Indenture and after the curing of all Events of Default which may have occurred, the duties and obligations of the Trustee shall at all times be determined solely by the express provisions of the Indenture; the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Indenture; and no covenants or obligations shall be implied into the Indenture which are adverse to the Trustee; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

(i) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee unless it shall be proved that the Trustee, was negligent in ascertaining the pertinent facts;

(ii) the Trustee shall have the power to negotiate and enter into intercreditor agreements with respect to the common security for the payment of the Bonds;

(iii) the Trustee shall not be personally liable with respect to any action taken, permitted or omitted by it in good faith in accordance with the direction of the Owners of not less than a majority, or such other percentage as may be required under the Indenture, in aggregate principal amount of the Bonds Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture; and

(iv) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee, conforming to the requirements of the Indenture; but in the case of any such certificate or opinion which by any provision of the Indenture is specifically required to be furnished to the Trustee, the Trustee, shall be under a duty to examine the same to determine whether or not it conforms to the requirements of the Indenture on its face.

(c) The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it thereunder by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and concerning its duties under the Indenture and the Trustee shall not be responsible for any misconduct or negligence on the part of any attorney or agent appointed with due care by it under the Indenture.

None of the provisions contained in the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers. The permissive right of the Trustee to perform acts enumerated in the Indenture or the Loan Agreement shall not be construed as a duty or obligation under the Indenture.

The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to the Indenture and delivered using Electronic Means; provided, however, that the Borrower shall provide to the Trustee an incumbency certificate listing Authorized Borrower Representatives with the authority to provide such Instructions and containing specimen signatures of such Authorized Borrower Representatives, which incumbency certificate shall be amended by the Borrower whenever a person is to be added or deleted from the listing. If the Borrower elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions shall be deemed controlling. The Borrower understands and agrees that the Trustee may not be able to determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Borrower Representative listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Borrower Representative. The Borrower shall be responsible for ensuring that only Authorized Borrower Representatives transmit such Instructions to the Trustee and that the Borrower and all Authorized Borrower Representatives are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Borrower. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Borrower agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Borrower; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

The Trustee shall not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

The Trustee shall not be liable in connection with the performance of its duties under the Indenture except for its own negligence or willful misconduct.

Right of Trustee to Acquire Bonds. The Trustee and its officers and directors may acquire and hold, or become the pledgee of, Bonds and otherwise deal with the Issuer in the manner and to the same extent and with like effect as though it were not Trustee under the Indenture.

Qualifications of Trustee. The Issuer and the initial Trustee under the Indenture acknowledge that there shall at all times be a Trustee under the Indenture which shall be a corporation or banking association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital (exclusive of borrowed capital) and surplus of at least $75,000,000, and subject to supervision or examination by federal or state authority. If such corporation or banking association publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this paragraph the combined capital and surplus of such corporation or banking association shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee shall cease to be eligible, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

Resignation and Removal of Trustee and Appointment of Successor Trustee. (a) The Trustee may at any time resign by giving written notice to the Issuer, the Borrower, The Regents and by giving Notice by Mail to the Owners of such resignation; provided that, such resignation shall not be effective until a successor Trustee has been appointed under the Indenture. The Trustee shall also mail a copy of any such notice of resignation to the Rating Agencies. Upon receiving such notice of resignation, the Issuer, with the advice of the Borrower and at the expense of the Borrower, shall promptly appoint a successor Trustee by an instrument in writing. If no successor Trustee shall have been so appointed and have accepted appointment within 45 days after the giving of such notice of resignation by the Trustee, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, or any Owner who has been a bona fide Owner for at least six months may, on behalf of himself and others similarly situated, petition any such court for the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor Trustee.

(b) In case at any time either of the following shall occur:

(i) the Trustee shall cease to be eligible in accordance with the terms of the Indenture and shall fail to resign after written request therefor by the Issuer or by any Owner who has been a *bona fide* Owner for at least six (6) months, or

(ii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Issuer may remove the Trustee, at the expense of the Borrower and, with the advice of the Borrower and at the expense of the Borrower, appoint a successor Trustee by an instrument in writing. Upon any removal of the Trustee, any outstanding fees and expenses of such former Trustee shall be paid in accordance with the provisions of the Indenture.

(c) The Issuer, in the absence of an Event of Default, or the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, with the advice of the Borrower and at the expense of the Borrower, at any time, remove the Trustee by giving written notice to the Trustee at least thirty (30) days prior to removal, and, with the advice of the Borrower, appoint a successor Trustee, by an instrument or concurrent instruments in writing signed by the Issuer or such Owners, as the case may be.

(d) Any resignation or removal of the Trustee, and appointment of a successor Trustee pursuant to the provisions of the Indenture shall become effective only upon acceptance of appointment by the successor Trustee as provided in the Indenture and the prior written consent of The Regents.

Merger or Consolidation of Trustee. Any corporation or banking association into which the Trustee may be merged or with which it may be consolidated, or any corporation or banking association resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation or banking association succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee under the Indenture without the execution or filing of any paper or any further act on the part of any of the parties thereto, anything therein to the contrary notwithstanding, provided that such successor Trustee shall be eligible under the provisions of the Indenture.

Accounting Records and Reports; Financing Statements. The Trustee shall keep proper books of record and account in accordance with accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Revenues and the proceeds of the Bonds received by the Trustee. Such records shall be open to inspection by the Issuer, the

Borrower, and by any Owner at any reasonable time during regular business hours on reasonable notice. The Trustee shall maintain such records for six years following the discharge of all Outstanding Bonds, or for such longer period as required by its internal record retention policies and procedures.

The Trustee shall furnish to any Owner who may make written request therefor a copy of the most recent audited financial statements of the Borrower that are in the possession of the Trustee. The Trustee shall have no responsibility or liability with respect to the Borrower's failure to provide such statements, and the Trustee shall not be required to compel the Borrower to provide any such statements.

The Trustee shall not be responsible for the preparation or filing of any UCC financing statements or continuation statements under the Indenture.

Appointment of Co-Trustee. In the event the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies granted to the Trustee or hold title to the properties, in trust, as granted in the Indenture, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional institution as a separate co-Trustee. In the absence of an Event of Default under the Indenture, the appointment of any such separate co-Trustee shall be subject to the approval of the Issuer and The Regents, following consultation with the Borrower.

In the event that the Trustee appoints an additional institution as a separate co-Trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, interest or lien expressed or intended by the Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such co-Trustee but only to the extent necessary to enable such co-Trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such co-Trustee shall run to and be enforceable by either of them. Such co-Trustee may be removed by the Trustee at any time, with or without cause.

Should any instrument in writing from the Issuer be required by the co-Trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer at the expense of the Borrower. In case any co-Trustee, or a successor, shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such co-Trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a successor to such co-Trustee.

Reporting to the Issuer. The Trustee covenants and agrees to submit the following information to the Issuer no later than five (5) business days following each June 30th and December 31st in which any Bonds are Outstanding.

(a) the aggregate principal amount of all Outstanding Bonds; and

(b) such other information that the Issuer may reasonably request to fulfill its reporting obligations, provided, however, that the Issuer shall provide the Trustee with at least thirty (30) calendar days advance notice of any such requested information.

**Modification of Indenture and the Loan Agreement**

Modification without Consent of Owners. The Issuer and the Trustee, at the expense of the Borrower, without the consent of or notice to any Owners and with the prior written consent of The Regents, from time to time and at any time, but subject to the conditions and restrictions contained in the Indenture, may enter into a Supplemental Indenture or Indentures, which Supplemental Indenture or Indentures thereafter shall form a part of the Indenture; and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, may consent to any Amendment to any Bond Document; in each case for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Issuer contained in the Indenture, or of the Borrower contained in any Bond Document, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power therein reserved to or conferred upon the Issuer or the Borrower;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in the Indenture or any Bond Document, or in regard to matters or questions arising under the Indenture or any Bond Document, as the Issuer may deem necessary or desirable;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof or thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and, if they so determine, to add to the Indenture as therefore supplemented and amended such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar federal statute;

(d) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the Bonds;

(e) to modify or eliminate the book-entry registration system for any of the Bonds;

(f) to provide for the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code;

(g) to provide for the appointment of a co-Trustee or the succession of a new Trustee;

(h) to comply with requirements of any Rating Agency in order to obtain or maintain a rating on any Bonds; or

(i) in connection with any other change which will not adversely affect the security for the Bonds or the Tax-Exempt status of interest thereon or otherwise materially adversely affect the interests of the Owners, such determination to be based upon an Opinion of Bond Counsel.

Before the Issuer or the Trustee enters into a Supplemental Indenture, and before the Trustee consents to any Amendment, the Trustee shall cause notice of the proposed execution of the Supplemental Indenture or Amendment to be given by mail to the Borrower and each Rating Agency. A copy of the proposed Supplemental Indenture or Amendment shall accompany such notice. Not less than one week after the date of the first mailing of such notice, the Issuer and/or the Trustee may execute and deliver such Supplemental Indenture or Amendment, but only after there shall have been delivered to the Trustee and the Issuer an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with the applicable terms of the Indenture; (iii) will, upon the execution and delivery thereof be a valid and binding agreement of the Issuer; (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds; (v) is in accordance with the applicable Bond Documents; and (vi) will not materially adversely affect the interest of the Owners of the Bonds.

Notwithstanding the foregoing provisions, the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such Supplemental Indenture, and the Trustee shall not enter into any Supplemental Indenture or consent to any Amendment without first obtaining the written consent of the Borrower. Any Supplemental Indenture or Amendment permitted pursuant to the Loan Agreement may be approved by an Authorized Issuer Representative and need not be approved by resolution or other action of the Board of Directors of the Issuer.

Modification with Consent of Owners. With the prior written consent of The Regents and the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, evidenced as provided in the Indenture, and at the expense of such Owners, (i) the Issuer and the Trustee may from time to time and at any time enter into a Supplemental Indenture or Indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture as theretofore supplemented and amended; (ii) the Issuer and the Borrower may enter into any Amendment; and (iii) the Trustee may consent to any Amendment to any Bond Document and any other matters for which its consent is required pursuant to the Indenture; provided, however, that no such Supplemental Indenture or Amendment will have the effect of extending the time for payment or reducing any amount due and payable by the Borrower pursuant to the Loan Agreement without the consent of the Owners of all Bonds then Outstanding; and that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Owners whose consent is required for the execution of such Supplemental Indentures or Amendments, or permit the creation of any lien on the Revenues and the other assets pledged as security for Bonds under the Indenture prior to or on a parity with the lien of the Indenture, except as permitted therein, or permit the creation of any preference of any Owner over any other Owner, except as permitted therein, or deprive the Owners of the Bonds of the lien created by the Indenture upon the Revenues and the other assets pledged to the payment of the Bonds under the Indenture, without the consent of the Owners of all Bonds then Outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Owner of any Supplemental Indenture or Amendment permitted by the foregoing provisions relating to amendments without the consent of Owners.

Upon receipt by the Trustee of: (1) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment, if such authorization is required; (2) an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with the applicable terms of the Indenture; (iii) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be a valid and binding agreement of the Issuer; (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds; (v) is in accordance with the applicable Bond Documents; and (vi) will not materially adversely affect the interests of the Owners of the Bonds; and (3) evidence of the consent of the Owners, as aforesaid, the Trustee shall join with the Issuer in the execution of such Supplemental Indenture or shall consent to such Amendment; provided, however, that (i) the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its sole discretion, but shall not be obligated to, enter into such Supplemental Indenture; (ii) the Trustee shall not enter into such Supplemental Indenture or consent to any Amendment of any Bond Document without first obtaining the Borrower's and The Regents' written consent thereto; and (iii) if the Issuer determines that a Certified Resolution is not required for the execution of any such Supplemental Indenture or Amendment, the Opinion of Bond Counsel set forth under (2) above shall also be delivered to the Issuer.

It shall not be necessary for the consent of the Owners to approve the particular form of any proposed Supplemental Indenture or Amendment, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment, the Trustee shall mail a notice setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Borrower at the address noted in the Indenture and to the Rating Agencies and each Owner at the address contained in the Bond Register. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

Effect of Supplemental Indenture or Amendment. Upon the execution of any Supplemental Indenture or any Amendment to the Loan Agreement pursuant to the provisions of the Indenture or the Loan Agreement, as the case may be, shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture and the Loan Agreement of the Issuer, the Trustee, the Borrower and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture and under the Loan Agreement subject in all respects to such Supplemental Indentures and Amendments, and all the terms and conditions of any such Supplemental Indenture or Amendment shall be part of the terms and conditions of the Indenture or the Loan Agreement, as the case may be, for any and all purposes.

Required and Permitted Opinions of Counsel. Subject to the provisions of the Indenture, the Trustee and the Issuer are entitled to receive an Opinion of Bond Counsel and rely on such Opinion of Bond Counsel as conclusive evidence that any Supplemental Indenture or Amendment executed pursuant to the provisions of the Indenture complies with the applicable requirements thereof, that the appropriate consents have been obtained and, as to the Trustee only, that such Supplemental Indenture or Amendment has been duly authorized by the Issuer.

**Defeasance of Bonds**

Discharge of Indenture. If all Bonds shall be paid and discharged in any one or more of the following ways:

(a) by the payment of the principal of and interest on all Bonds as and when the same become due and payable; or

(b) by providing for the payment of the principal of and interest on all Bonds as provided in the provisions of the Indenture relating to defeasance; or

(c) by the delivery to the Trustee, for cancellation by it, of all Bonds;

and if all other sums payable under the Indenture by the Borrower and the Issuer shall be paid and discharged, then thereupon the Indenture shall be satisfied and discharged and shall cease, terminate and become null and void (except with respect to the provisions of the Indenture regarding compensation and indemnification of the Trustee which shall survive), and thereupon the Trustee shall, upon Written Request of the Issuer, and upon receipt by the Trustee and the Issuer of an Opinion of Bond Counsel to the effect that all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments, prepared by or on behalf of the Issuer or the Borrower, acknowledging the satisfaction and discharge of the Indenture. In such event, upon Written Request of the Issuer, the Trustee shall cause an accounting for such period or periods as may be requested by the Issuer to be prepared and filed with the Issuer and shall execute and deliver to the Issuer all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Borrower all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption and which are not required for the payment of fees, expenses and amounts owed to the Trustee and the Issuer (including without limitation attorney fees and expenses and certain payments required under the Loan Agreement), and the Rebate Requirement. The Trustee shall mail written notice of such payment and discharge to the Issuer, the Borrower, and each Rating Agency. The satisfaction and discharge of the Indenture shall be without prejudice to the rights of the Trustee and the Issuer to charge and be reimbursed by the Borrower for any expenditures which it may thereafter incur in connection therewith.

Discharge of Liability on Particular Bonds. (a) Any Bond or a portion thereof shall be deemed to be paid within the meaning of the Indenture when payment of the principal of such Bond or a portion thereof plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption or by declaration as provided in the Indenture) shall have been provided for by (i) irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment money and/or nonprepayable, noncallable United States Government Securities as provided in the Indenture; and (ii) if such Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for giving such notice.

(b) In the event of the provision of the payment of less than the full principal amount of a Bond in accordance with clause (a) above, the principal amount of the Bond as to which such payment is not provided for shall be in an Authorized Denomination and, unless that portion of the Bond as to which payment is provided for in accordance with clause (a) is to be paid or redeemed within sixty days of the deposit with the Trustee, such portion will also be in an Authorized Denomination.

(c) Upon the deposit with the Trustee, in trust, at or before maturity or the redemption date, as applicable, of money and/or nonprepayable, noncallable United States Government Securities as provided in the

Indenture to pay or redeem a Bond or a portion thereof and the satisfaction of the other conditions specified in clause (a) above, such Bond, or the applicable portion thereof, shall be deemed to be paid under the Indenture, shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such money and/or United States Government Securities deposited with the Trustee for such purpose, and all liability of the Issuer and the Borrower in respect of such Bond, or the applicable portion thereof, shall cease, terminate and be completely discharged, except that the Issuer and the Borrower shall remain liable for the payment of the principal of and interest on such Bond, or the applicable portion thereof, but only from, and the Owners shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money and/or United States Government Securities deposited with the Trustee as aforesaid for their payment, subject, however, to certain provisions of the Indenture.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or United States Government Securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or nonprepayable, noncallable United States Government Securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) an amount of money equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount of money to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) nonprepayable, noncallable United States Government Securities, the principal of and the interest on which when due will provide money at the times and in the amounts sufficient, together with the other moneys held by the Trustee for such purpose (as evidenced by an Accountant's Report) to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Issuer prepared at the request and expense of the Borrower) to apply such money and the payments on such United States Government Securities to the payment of such principal or redemption price and interest with respect to such Bonds. The Trustee shall not be responsible for verifying the sufficiency of money and United States Government Securities deposited with the Trustee to provide for the payment of the principal of and interest on Bonds pursuant to the Indenture but may conclusively rely for all purposes of the Indenture on an Accountant's Report as to such sufficiency.

**Miscellaneous Provisions**

Successors and Assigns of Issuer. All the covenants, stipulations, promises and agreements in the Indenture contained, by or on behalf of the Issuer or the Trustee, shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not. If any of the powers or duties of the Issuer shall be transferred by any law of the State, and if such transfer shall relate to any matter or thing permitted or required to be done under the Indenture by the Issuer, then the body or official of the State who shall succeed to such powers or duties shall act and be obligated in the place and stead of the Issuer as provided in the Indenture.

Limitation of Rights. Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Issuer, the Trustee, the Borrower, The Regents and the Owners of the Bonds any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Issuer, the Trustee, the Borrower, The Regents and the Owners of the Bonds.

Waiver of Notice. Whenever in the Indenture the giving of notice to a Person is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Separability of Invalid Provisions. In case any one or more of the provisions contained in the Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of the Indenture, but the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained therein.

Evidence of Rights of Owners. (a) Any request, consent or other instrument required by the Indenture to be signed and executed by Owners may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Owners in person or by agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee, the Borrower and the Issuer if made in the manner provided in the Indenture.

(b) The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him or her the execution thereof. The fact and the date of execution of any request, consent or other instrument may also be proved in any other manner which the Trustee may deem sufficient. The Trustee may nevertheless, in its discretion, require further proof in cases where it may deem further proof desirable.

(c) The ownership of Bonds shall be proved by the Bond Register.

(d) Any request, consent or vote of the Owner shall bind every future Owner of the same Bond and the Owner issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuer in pursuance of such request, consent or vote.

(e) Except as otherwise provided in the Indenture, in determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are (i) owned by the Issuer, by the Borrower or by any other direct or indirect obligor on the Bonds, or (ii) by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Issuer or any other direct or indirect obligor on the Bonds, or in the case of the Borrower its member and the directors, officers and subsidiaries of each the Borrower, the member, or the subsidiary (each a "Controlling Person"), shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided that, for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which a Responsible Officer of the Trustee actually knows to be so owned shall be disregarded unless 100% of the Bonds are so owned, in which case such demand, request, direction, consent or waiver shall not be disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for purposes of this subsection (e) if the pledgee shall certify to the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Controlling Person. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Issuer and the Borrower shall specify in a certificate to the Trustee those Bonds disqualified by its ownership or by the ownership of a Controlling Person pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

(f) In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Owners upon such notice and in accordance with such rules and regulations, including the right of the Owners to be represented and vote by proxy, as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

No Personal Liability. No member, director, officer, official, agent or employee of the Issuer, and no member, director, officer, official, agent or employee of the State or any department, board or agency of the State shall be individually or personally liable for the payment of the principal of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds; but nothing contained in the Indenture shall relieve any such member, officer, official agent or employee from the performance of any official duty provided by law or by the Indenture.

Governing Law; Venue. The Indenture shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Indenture shall be enforceable in the State, and any action arising out of the Indenture shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Issuer waives this requirement in writing.

Unclaimed Moneys. Notwithstanding any provisions of the Indenture to the contrary, and subject to applicable laws of the State, any moneys deposited with the Trustee in trust for the payment of the principal of, or interest on, any Bonds remaining unclaimed for two years after the principal of any or all of the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture), shall then be repaid to the Borrower upon its written request, and the Owners of such Bonds shall thereafter be entitled to look only to the Borrower for payment thereof, and all liability of the Issuer and the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Borrower as aforesaid, the Trustee shall (at the request and cost of the Borrower) first give notice by mail to each affected Owner, which notice shall be in such form as may be deemed appropriate by the Borrower and the Trustee, in respect of the Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Borrower of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Borrower as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Borrower for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Borrower (without interest thereon).

## THE LOAN AGREEMENT

### Issuance of the Bonds; Application of Proceeds; Construction of Borrower Project

Agreement to Issue Bonds; Application of Bond Proceeds. To provide funds to refinance the Refunded 2010 Project and refund all or a portion of the 2010A Bonds, the Issuer agrees that it will issue under the Indenture, sell and cause to be delivered to the purchasers thereof, the Bonds pursuant to a purchase contract approved by the Borrower. The Issuer will thereupon direct the Trustee to apply the proceeds received from the sale of the Bonds and certain other funds supplied by the Borrower as provided in the Indenture.

### Loan to the Borrower; Repayment Provisions

Loan Payments and Other Amounts Payable. (a) With respect to the Bonds, the Borrower covenants and agrees to pay to the Trustee as a Loan Payment, on or before each date provided in or pursuant to the Indenture for the payment of principal of (whether at maturity or upon redemption or acceleration), premium, if any, and interest then payable on the Bonds, until the principal of and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration) and interest on the Bonds as provided in the Indenture.

Each payment made by the Borrower below shall at all times be sufficient to pay the total amount of interest, premium, if any, and principal (whether at maturity or upon redemption or acceleration) then payable on the Bonds; provided that any amount held by the Trustee in the Bond Fund on any due date for a Loan Payment under the Loan Agreement shall be credited against the Loan Payment due on such date, to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the available amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Outstanding Bonds as such payments become due, the Borrower shall be relieved of any obligation to make any further payments with respect to the Bonds under the applicable provisions of the Loan Agreement. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest on the Bonds as such payments become due, the Borrower shall forthwith pay such deficiency as a Loan Payment under the Loan Agreement.

(b) Without limiting the generality of the obligations of the Borrower under subsection (a) above to ensure that the moneys available in the Bond Fund are sufficient to pay when due the principal of and interest on the Outstanding Bonds, but without duplication, the Borrower shall make the deposits with the Trustee of the amounts described in (i) and (ii) below.

(i) *Interest Deposits*. The Borrower agrees that it will deposit or cause to be deposited with the Trustee six Business Days preceding each Interest Payment Date an amount equal to the amount of the interest payable on the Bonds on such Interest Payment Date less any amounts then on deposit in the Bond Fund available to pay the interest on the Bonds payable on such Interest Payment Date.

(ii) *Principal Deposits*. The Borrower agrees that it will deposit or cause to be deposited with the Trustee six Business Days preceding each Principal Installment Date an amount equal to the amount of the Principal Installment payable on the Bonds on such Principal Installment Date less any amounts then on deposit in the Bond Fund available to pay such Principal Installments on such Principal Installment Date.

(c) The Borrower agrees to pay to the party entitled thereto, to the extent not previously paid from Bond proceeds, certain other fees, charges and expenses constituting the "Additional Payments," as further described in the Loan Agreement.

<u>Unconditional Obligation</u>. The obligations of the Borrower to make the payments required by the Loan Agreement and to perform and observe the other agreements on its part contained in the Loan Agreement shall be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Issuer or any other Person, and the Borrower shall pay absolutely net of the payments to be made on account of the loan as prescribed in the Loan Agreement and all other payments required under the Loan Agreement, free of any deductions and without abatement, diminution or setoff. Until such time as the principal of and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, and all other amounts payable by or on behalf of the Borrower to the Issuer and the Trustee under the Loan Agreement have been paid in full, the Borrower will not suspend or discontinue any payments provided for; and during the term of the Loan Agreement as specified therein the Borrower will perform and observe all of its other covenants contained in the Loan Agreement, including without limitation the obligation to pay Additional Payments; and except as provided under the provisions of the Loan Agreement relating to prepayment, Borrower will not terminate the Loan Agreement for any cause, including, without limitation, the occurrence of any acts or circumstances that may constitute failure of consideration, destruction of or damage to, or taking or condemnation of, all or any part of the Refunded 2010 Project, termination of any lease relating to the Refunded 2010 Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either of these, or any failure of the Issuer or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement or the Indenture.

**Gross Revenues**

The Borrower agrees that, as long as any of the Loan Payments and Additional Payments remain unpaid, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in either (i) one or more funds designated as the "Gross Revenue Funds" which the Borrower shall establish and maintain, subject to the provisions of the Loan Agreement, as a deposit account at such banking institution or institutions as the Borrower shall from time to time designate, in writing, for such purpose (the "Depository Bank" and collectively, the "Depository Banks") and which shall enter into a Deposit Account Control Agreement with the Trustee and each Depository Bank and/or (ii) in the University of California's Short Term Investment Pool and/or similar fund, account or investment program of the University of California dedicated solely to the Borrower (the "Borrower UC Accounts" and, together with the Gross Revenue Funds, the "Investment Funds"). As security for the payment of the Loan Payments and Additional Payments and the performance by the Borrower of its other obligations under the Loan Agreement, the Borrower pledges and assigns to the Trustee and grants to the Trustee, a security interest (to the extent permitted by law) in, all its right, title and interest, whether owned or acquired, in and to the Gross Revenues and each Investment Fund and the proceeds thereof (collectively, the "Collateral"). The Borrower shall execute any required Deposit Account Control Agreements, shall file Uniform Commercial Code financing statements, and shall authorize, execute and deliver such other documents (including, but not limited to, amendments to such Uniform

Commercial Code financing statements) as may be necessary or reasonably requested by the Trustee (who is not obligated to make such request) in order to perfect or maintain the perfection and priority of such security interest; provided, however, that the Borrower shall not be required to execute any Deposit Account Control Agreements with respect to Collateral relating to the Borrower UC Accounts. The Borrower shall file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral, including, without limitation, financing statements that describe the collateral as being of an equal, greater or lesser scope, or with greater or lesser detail, than as set forth in the definition of Collateral. The Borrower also ratifies its authorization for the Trustee to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date of the Loan Agreement. The Borrower represents and warrants that as of the date of the Loan Agreement it is a nonprofit public benefit corporation organized solely under the laws of the State and that its complete legal name is as set forth on the signature page of the Loan Agreement executed by the Borrower. The Borrower covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives 30 days' prior written notice of such change to the Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Trustee in the Collateral.

Gross Revenues and amounts in any Investment Fund may be used and withdrawn by the Borrower at any time for any lawful purpose, except as hereinafter provided. In the event that a payment default under the Loan Agreement has occurred, exclusive control over the Gross Revenue Fund shall be exercised by the Trustee as provided in the Deposit Account Control Agreement and all Gross Revenues (other than those deposited in the Borrower UC Accounts) shall continue to be deposited in the Gross Revenue Fund as provided in the Loan Agreement and the Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said fund are sufficient to pay in full (or have been used to pay in full) all Loan Payments in default and until all other then existing Events of Default under the Loan Agreement known to the Trustee shall have been made good, cured or waived to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefore. During any period that the Gross Revenue Fund is subject to the exclusive control of the Trustee, the Trustee shall use and withdraw from time to time amounts in said fund, and transfer such amounts to the Trustee to make Loan Payments, Additional Payments and other payments required of the Borrower under the Loan Agreement as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Loan Payments first and then to such other payments in the order which the Trustee, in its discretion, shall determine to be in the best interests of the Owners of the Bonds, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Trustee, the Borrower shall not be entitled to use or withdraw any of the Gross Revenues from the Gross Revenue Funds unless (and then only to the extent that) the Trustee in its sole discretion (who is entitled to request and receive the consent of the Owners holding a majority of the Bonds prior to giving such direction) so directs for the payment of current or past due operating expenses of the Borrower; provided, however, the Borrower may submit requests to the Trustee as to which expenses to pay and in which order. The Borrower agrees to execute and deliver all instruments as may be required to implement these provisions. The Borrower further agrees that a failure to comply with the terms of these provisions shall cause irreparable harm to the Trustee from time to time of the Bonds, and shall entitle the Trustee, with or without notice to the Borrower, to take immediate action to compel the specific performance of the obligations of the Borrower as provided in the Loan Agreement.

Upon receipt of Gross Revenues, the Borrower covenants and agrees: (i) to deposit all Gross Revenues in any Investment Fund and not in any other fund or account; (ii) that any Gross Revenue Fund will be held as a deposit account at a Depository Bank; and (iii) that no Gross Revenues will be deposited in any other fund or account, other than the Investment Funds pursuant to the terms of the Loan Agreement.

**Special Covenants and Agreements**

Borrower's Maintenance of Its Existence; Consolidation, Merger, Sale or Transfer Under Certain Conditions. (a) The Borrower agrees that during the term of the Loan Agreement and so long as any Bond is Outstanding, it will maintain its existence as a nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Code, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not combine or consolidate with or merge into another Person or permit one or more Persons to consolidate with or merge into it; provided, however, that the Borrower may, without violating the agreements contained under this caption, consolidate with or merge into another Person or permit one or more other Persons to consolidate with or merge into it, or sell or otherwise transfer to another Person all or substantially all of its assets as an entirety and thereafter dissolve if: the Borrower is the surviving, resulting or transferee Person, as the case may be; or if the Borrower is not the surviving, resulting or transferee Person, as the case may be, the surviving, resulting Person, or the transferee of all or substantially all of the Borrower's assets: (i) assumes in writing all of the obligations of the Borrower under the Loan Agreement and agrees to fulfill and comply with the terms, covenants and conditions thereof; (ii) is not, after such transaction, otherwise in default under any provisions in the Loan Agreement, as evidenced by an officer's certificate of the transferee; and (iii) is an organization described in Section 501(c)(3) of the Code, as evidenced by an officer's certificate of the transferee. Notwithstanding the foregoing, as a condition precedent to any consolidation, merger, sale or other transfer, the Trustee and the Issuer shall receive (A) an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not in and of itself affect the Tax-Exempt status of interest on the Bonds and (B) an Opinion of Counsel reasonably acceptable to the Issuer to the effect that after such merger, consolidation, sale or other transfer, the Loan Agreement is a valid and binding obligation of the surviving, resulting or transferee Person, enforceable according to its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, or by the application of equitable principles if equitable remedies are sought, and the security interest created in the Loan Agreement will not be adversely affected by such sale or other transfer.

Notwithstanding any other provision under this caption, the Borrower need not comply with any of the provisions of the first paragraph (other than the delivery of the Opinion of Bond Counsel referred to above) if, at the time of any transaction not satisfying the terms of the first paragraph, provision for the payment of all Outstanding Bonds will be made as provided in the Indenture.

(b) If a merger, consolidation, sale or other transfer, as provided above, is effected, these provisions shall continue in full force and effect and no further merger, consolidation, sale or transfer shall be effected except in accordance with these provisions.

(c) Another Person may also agree to become a co-obligor and jointly and severally liable with the Borrower (without the necessity of merger, consolidation or transfer of assets) under the Loan Agreement if the foregoing provisions are satisfied. In such event, references in the Loan Agreement to indebtedness of the Borrower shall apply to the combined indebtedness of the Borrower and such other Person, references to the financial condition or results of operation of the Borrower shall apply to the combined financial condition and results of operation of the Borrower and such other Person, and the Borrower and such other Person shall be considered to be the Borrower for all purposes of the Loan Agreement.

<u>Maintenance and Repair; Taxes, Utility and Other Charges</u>. Subject to applicable law and regulation, the Borrower agrees to maintain, or cause to be maintained, the Refunded 2010 Project, during the term of the Loan Agreement (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition consistent with its historical practices, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

The Borrower agrees that as between the Issuer and the Borrower, the Borrower will pay or cause to be paid all taxes and governmental charges of any kind lawfully assessed or levied upon the Refunded 2010 Project or any part thereof, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Refunded 2010 Project and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Refunded 2010 Project, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower, to the extent described above, shall be obligated to pay or cause to be paid only such installments as are required to be paid during the term of the Loan Agreement. The Borrower may, at the Borrower's expense and in the Borrower's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Refunded 2010 Project or any part thereof will be subject to loss or forfeiture.

<u>Qualification in California</u>. The Borrower agrees that throughout the term of the Loan Agreement it, or any successor or assignee as permitted by the Loan Agreement, will be qualified to do business in the State.

Tax Covenants. (a) It is the intention of the parties to the Loan Agreement that interest on the Bonds shall be and remain Tax-Exempt, and to that end the covenants and agreements of the Issuer and the Borrower below and the Tax Agreement are for the benefit of the Trustee and each and every Person who at any time will be an Owner of the Bonds.

(b) The Issuer covenants and agrees that it will not directly or indirectly use or, to the extent within its control, permit the use of any proceeds of the Bonds or other funds, or take or omit to take any action that it is required to take by the Tax Agreement that will cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code.

(c) The Borrower covenants and agrees that it will not directly or indirectly use or permit the use of any proceeds of the Bonds or other funds, nor will it take or omit to take any action, that will cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code.

(d) Each of the Borrower and the Issuer further covenants and agrees that it will not direct the Trustee to invest any funds held by it under the Indenture or the Loan Agreement, in such manner as would, or enter into or allow any related person to enter into any arrangement (formal or informal) that would, cause any Bond to be an **"**arbitrage bond**"** within the meaning of Section 148(a) of the Code. To such ends with respect to the Bonds, the Issuer and the Borrower will comply with all requirements of Section 148 of the Code and all regulations of the U.S. Department of Treasury issued thereunder to the extent applicable to the Bonds. In the event that at any time the Issuer or the Borrower is of the opinion that it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Loan Agreement or the Indenture, the Issuer or the Borrower shall so instruct the Trustee in writing and the Trustee shall comply with such written instructions. The covenants and agreements of the Issuer in this paragraph (d) shall apply to the Issuer only to the extent the Issuer has the right under the Indenture to control the investment of moneys held by the Trustee.

Without limiting the generality of the foregoing, the Borrower and the Issuer agree that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any applicable Treasury Regulations. This covenant shall survive payment in full of the Bonds or provision for the payment of the Bonds in accordance with the Indenture. The Borrower specifically covenants that it has hired a rebate consultant acceptable to the Issuer to calculate and to pay or cause to be paid for and on behalf of the Issuer to the United States of America at the times and in the amounts determined under the Indenture the Rebate Requirement as described in the Tax Agreement, and under no circumstance shall the calculation or payment of the Rebate Requirement be the obligation of the Issuer.

(e) The Issuer certifies, represents and agrees that it has not taken, and will not take, any action which will cause interest paid on the Bonds to become includable in gross income of the Owners of the Bonds for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Code; and the Borrower certifies and represents that it has not taken or, to the extent within its control, permitted to be taken, and the Borrower covenants and agrees that, at its sole cost and expense, it will not take or fail to take or, to the extent within its control, permit to be taken, or permit the failure to be taken of, any action, if such action or failure to take such action will cause the interest on the Bonds to become includable in gross income of the Owners of the Bonds for federal income tax purposes pursuant to such provisions of the Code (including, without limitation, the calculation and payment of any rebate required to maintain the Tax-Exempt status of interest on the Bonds); provided that, neither the Borrower nor the Issuer shall have violated these covenants if the interest on any of the Bonds becomes taxable to a person solely because such person is a "substantial user" of the financed facilities or a "related person" within the meaning of Section 103(b)(13) of the Code; and provided, further, that none of the covenants and agreements contained in the Loan Agreement shall require either the Borrower or the Issuer to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds.

Continuing Disclosure. The Issuer is not an obligated person within the meaning of the continuing disclosure requirements for the Bonds as promulgated under Rule 15c2-12, and therefore the Issuer is not executing or delivering a continuing disclosure agreement in connection with the issuance of the Bonds. The Borrower agrees to comply with certain requirements of Rule 15c2-12 applicable to the Bonds, including without limitation complying with all of its obligations under the Borrower Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Borrower to comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time be amended or supplemented, shall not be considered an Event of Default under the Loan Agreement or under the Indenture; however, the Trustee may (and, at the written request of the Owners of at least 25% aggregate principal amount of Outstanding Bonds and upon receipt of indemnity reasonably satisfactory to the Trustee, shall) or any Owner or Beneficial Owner of any Bond may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations pursuant to this paragraph. The Regents is an obligated person and has agreed to comply with certain requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time be amended or supplemented, in accordance with the terms of the Regents Continuing Disclosure Agreement.

Insurance. (a) So long as any Bonds remain Outstanding, the Borrower will maintain or cause to be maintained with respect to the Refunded 2010 Project, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by scientific research facilities located in the State of a nature similar to the Refunded 2010 Project, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance, but shall not include earthquake insurance.

(b) So long as the Bonds remain outstanding, the Borrower shall at all times also maintain worker's compensation coverage as required by the laws of the State.

Investments. The Borrower, by written request, may direct the investment by the Trustee of moneys in the funds and accounts established pursuant to the Indenture, subject to certain limitations in the Loan Agreement and the Indenture. The Borrower covenants that it will not direct the Trustee to make any investments and itself will not make any investments of the proceeds of the Bonds, or any other funds in any way pledged to the security of or reasonably expected to be used to pay the Bonds, which would cause any of the Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 103(b)(2) of the Code. The Borrower shall not purchase any obligations of the Issuer, pursuant to an arrangement, formal or informal, in an amount related to the amount of the loans made to the Borrower under the Loan Agreement. Nothing under this caption shall prohibit the Borrower from receiving Bonds by gift, bequest or devise or from purchasing Bonds in the secondary market other than pursuant to an arrangement related to the loan made.

Compliance with Laws. The Borrower will comply in all material respects with all laws, statutes, ordinances, regulations, covenants, conditions and restrictions affecting the Borrower or its operations, and it will not commit, suffer or permit any act to be done in violation of any law, ordinance or regulation, except, in each case, where such noncompliance or act would not have a material adverse effect upon the Borrower's assets, operations or financial condition, or upon the Bonds.

Terms Relating to the Debt Service Payment Agreement. Notwithstanding any provisions of the Loan Agreement to the contrary, while the Debt Service Payment Agreement is in effect and The Regents is not in default thereunder and unless otherwise agreed to in writing by The Regents, the terms and conditions set forth below shall be in effect so long as any of the Bonds are Outstanding.

(a) *Annual Certification by the Borrower*. The Borrower shall provide The Regents with a certification within 60 days after the end of each Fiscal Year to the effect that: to the best of the signer's knowledge and belief, the Borrower has performed all of its covenants and obligations under the Loan Agreement and there does not exist at the date of such certificate any default by the Borrower under the Loan Agreement or any Event of Default or other event which, with the lapse of time or the giving of notice, would become an Event of Default, or if any such default or Event of Default or other event does exist, describing it and its current status.

(b) *Amendments of the Loan Agreement*. Any amendments of the Loan Agreement shall also require the prior written consent of The Regents.

(c) *Notices to be Sent to The Regents*. The Regents shall receive copies of all notices required to be delivered under the Loan Agreement and, on an annual basis, copies of the Borrower's audited financial statements within 180 days of the end of each Fiscal Year. All notices required to be given to The Regents under the Loan Agreement shall be in writing and shall be sent to the address specified in the Loan Agreement.

(d) *Limitations on Arrangements to Tender or Purchase the Bonds*. The Borrower shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which the Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Bonds without the prior written consent of The Regents.

Obligation to Continue Payments. So long as any Bonds are Outstanding, if (i) the Refunded 2010 Project or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty, or (ii) the temporary use of the Refunded 2010 Project or any portion thereof shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Borrower shall nevertheless be obligated to continue to pay the amounts specified, to the extent not prepaid.

**Events of Default and Remedies**

Events of Default. Any one of the following which occurs shall constitute an Event of Default under the Loan Agreement:

(a) failure by the Borrower to pay or cause to be paid any amounts required to be paid under the Loan Agreement, other than Additional Payments, when due or make the deposits required to be made under the Loan Agreement within one day of the day when such payment was due; provided, however, such failure to make payment by the Borrower shall not constitute an Event of Default if (i) such required payment has been deposited by The Regents with the Trustee by the Business Day prior to the Interest Payment Date, or (ii) the Trustee has delivered a written notice to The Regents in accordance with the Debt Service Payment Agreement; or

(b) failure by the Borrower to pay or cause to be paid any Additional Payments under the Loan Agreement when due; or

(c) failure of the Borrower to observe and perform any covenant, condition or agreement on its part required to be observed or performed under the Loan Agreement, other than making the payments referred to in (a) and (b) above, which continues for a period of 30 days after written notice from the Trustee or the Issuer, which notice shall specify such failure and request that it be remedied; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time period if corrective action is instituted within such period and diligently pursued until the default is corrected, which period shall be no longer than 180 days from the Borrower's receipt of such default notice; or

(d) any of the representations or warranties of the Borrower made in the Loan Agreement or in the application filed with the Issuer in connection with the Bonds was false or incorrect in any material respect when made; or

(e) an Act of Bankruptcy occurs with respect to the Borrower; or

(f) the occurrence of an Event of Default under the Indenture.

The provisions of subsection (c) above are subject to the limitation that the Borrower shall not be deemed in default with respect to any covenant, condition or agreement to be observed or performed by the Borrower under the Loan Agreement, other than a covenant or agreement to make any payment required to be made by the Borrower thereunder, if and so long as the Borrower is unable to carry out its agreements thereunder by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Borrower; it being agreed that the settlement of strikes, lockouts and other industrial disturbances of the Borrower shall be entirely within the discretion of the Borrower, and the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Borrower, unfavorable to the Borrower. This limitation shall not apply to any default under subsections (a), (b), (d), (e) or (f) above.

Remedies on Default. (a) Whenever any Event of Default under the Loan Agreement shall have occurred and shall continue, the Issuer or, subject to its rights and protections in the Indenture, the Trustee may take whatever action or institute any proceeding, at law or in equity, as may be necessary or desirable for the collection of the payments and other amounts then due and thereafter to become due under the Loan Agreement or the enforcement of the performance and observance of any obligation, agreement or covenant of the Borrower under the Loan Agreement, including but not limited to: (i) instituting and prosecuting to judgment or final decree and enforcing any such judgment or decree against the Borrower and collect in the manner provided by law moneys decreed to be payable; and (ii) by injunctive and other equitable relief, to require the Borrower to perform each of its obligations under the Loan Agreement and to otherwise protect the Issuer's rights under the Loan Agreement.

(b) If, at any time after all of the Outstanding Bonds shall have been declared due and payable pursuant to the Indenture but such declaration has been rescinded in accordance with the Indenture, no amount shall be payable by the Borrower with respect to the principal of Bonds as to which the acceleration of maturity has been rescinded.

(c) In case the Trustee or the Issuer shall have proceeded to enforce its rights under the Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Issuer, then, and in every such case, the Borrower, the Trustee and the Issuer shall be restored respectively to their several positions and rights under the Loan Agreement, and all rights, remedies and powers of the Borrower, the Trustee and the Issuer shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Issuer, the Trustee or the Borrower shall not be disturbed by reason of this provision).

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for any property of the Borrower or in the case of any other similar judicial proceedings relative to the Borrower, or the creditors or property of the Borrower, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to the Loan Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Borrower, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its reasonable charges and expenses to the extent permitted by the Indenture. Any receiver, assignee or trustee in bankruptcy or reorganization is authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for reasonable compensation and expenses, including reasonable expenses and fees of counsel incurred by it up to the date of such distribution.

Notwithstanding anything to the contrary contained in the Loan Agreement, so long as the Debt Service Payment Agreement is in effect and The Regents is not in default under the terms of the Debt Service Payment Agreement, The Regents shall be deemed the sole Owners of the Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Bonds are entitled to take pursuant to the provisions of the Loan Agreement pertaining to defaults and remedies.

No Remedy Exclusive. No remedy conferred upon or reserved to the Issuer or the Trustee in the Loan Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Loan Agreement or existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer or the Trustee to exercise any remedy reserved to it, it shall not be necessary to give any notice, other than such notice as may be expressly required in the Loan Agreement.

No Additional Waiver Implied by One Waiver. In the event any agreement or covenant contained in the Loan Agreement should be breached by the Borrower and thereafter waived by the Issuer or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Loan Agreement.

**Prepayment**

Optional Prepayment of Loan Payments. So long as no Event of Default shall have occurred and be continuing under the Loan Agreement, the Borrower shall have the option to prepay all or any portion of the Loan Payments by paying the applicable amount set forth in the Loan Agreement. By virtue of the assignment under the Loan Agreement to the Trustee of certain rights of the Issuer, the Borrower shall pay (or cause to be paid) any prepayment of Loan Payments directly to the Trustee. Such prepayments of Loan Payments shall be applied to effect redemption of the Bonds in accordance with the Indenture on the date specified for such redemption pursuant to the Loan Agreement or, at the direction of the Borrower, to apply such prepayment to making provision for the payment of Bonds as provided in defeasance provisions of the Indenture and the related expenses and other costs specified in the Loan Agreement.

Notwithstanding any partial prepayment of Loan Payments, the Loan Agreement shall not be terminated until no Bonds remain Outstanding under the Indenture and all amounts payable by the Borrower under the Loan Agreement have been paid.

Amount of Prepayment. (a) In the case of a prepayment of the entire amount of the Loan Payments remaining due under the Loan Agreement, the amount to be paid shall be a sum sufficient, together with other funds and the principal of and interest on any United States Government Securities then on deposit with the Trustee and available for such purpose to provide for the payment of all then Outstanding Bonds, including any redemption premium thereon, and the satisfaction and discharge of the Indenture in accordance therewith.

(b) In the case of the prepayment of a portion of the Loan Payments remaining due under the Loan Agreement, the amount payable shall be a sum sufficient: (i) to provide for the payment of the Outstanding Bonds (or portions thereof) in Authorized Denominations of maturities specified in the notice of prepayment in accordance with the Indenture, including any redemption premium thereon; and (ii) to pay all reasonable and necessary fees and expenses of the Issuer and the Trustee in connection with the receipt and application of such prepayment, including the establishment of an escrow to provide for the payment of such Bonds.

**Miscellaneous**

Limitation of Rights. Nothing in the Loan Agreement expressed or implied is intended or shall be construed to give to any Person other than the Issuer, the Trustee, the Borrower or The Regents any legal or equitable right, remedy or claim under or in respect of the Loan Agreement or any covenant, condition or provision contained in the Loan Agreement; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Issuer, the Trustee, the Borrower and The Regents.

Severability. If any provision of the Loan Agreement shall be held or deemed to be, or shall in fact be, illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions of the Loan Agreement or render the same invalid, inoperative, or unenforceable to any extent whatever.

Agreement Represents Complete Agreement; Amendments. The Agreement and the Tax Agreement represent the entire contract between the Issuer and the Borrower with respect to the Bonds, the loan of the proceeds thereof to the Borrower, the Refunded 2010 Project, and related matters. Except as otherwise provided in the Loan Agreement or the Indenture, the Loan Agreement may not be effectively amended, changed, modified, altered or terminated except in accordance with the Indenture.

Governing Law; Venue. The Agreement shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Agreement shall be enforceable in the State, and any action arising out of the Loan Agreement shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Issuer waives this requirement in writing.

No Personal Liability. No member, director, officer, official, agent or employee of the Issuer or any director, officer, agent or employee of the Borrower shall be individually or personally liable for the payment of any principal of, premium, if any, or interest on the Bonds or any other sum under the Loan Agreement or be subject to any personal liability or accountability by reason of the execution and delivery of the Loan Agreement, and all such liability or accountability is by the acceptance of the Loan Agreement and as part of the consideration for the Loan Agreement, expressly waived and released; but nothing contained in this paragraph shall relieve any such member, director, officer, official, agent or employee from the performance of any official duty provided by law or the Loan Agreement.

Third Party Beneficiaries. The Regents shall be deemed third party beneficiaries of all covenants and agreements pertaining to The Regents contained in the Loan Agreement.

## THE DEBT SERVICE PAYMENT AGREEMENT

### Payment of Debt Service Shortfall

So long as the Bonds are Outstanding pursuant to the Indenture, The Regents unconditionally, absolutely and irrevocably covenants to pay to the Trustee an amount equal to the Debt Service Shortfall upon receipt of a written notice from the Trustee in substantially the form set forth as Exhibit A to the Debt Service Payment Agreement. The Trustee shall deliver such written notice to The Regents in the manner specified in the Debt Service Payment Agreement not less than five Business Days prior to the date Debt Service is required to be paid under the Indenture (the “Debt Service Payment Date”). The Regents shall pay to the Trustee in the manner specified in the Debt Service Payment Agreement an amount equal to the Debt Service Shortfall not later than the Business Day prior to the Debt Service Payment Date.

### Nature of Agreement

The Debt Service Payment Agreement is an unconditional, absolute, continuing covenant of payment of the Bonds by The Regents and not of collection. The Debt Service Payment Agreement may not be revoked by The Regents. It is the intent of The Regents that the obligations and liabilities of The Regents thereunder are absolute and unconditional under any and all circumstances so long as the Bonds are Outstanding pursuant to the Indenture and such obligations and liabilities shall not be discharged or released in whole or in part, by any act or occurrence which might, but for the provisions of the Debt Service Payment Agreement, be deemed a legal or equitable discharge or release of The Regents, all without regard to any counterclaim, set-off, recoupment, deduction or defense of any kind which the Trustee, the Issuer, the Borrower or The Regents may have or assert, and without abatement, suspension, deferment or diminution on account of any event or condition whatsoever. The Debt Service Payment Agreement shall continue to be effective or be reinstated if any payment to the Trustee by the Borrower on account of any Bond is returned to the Borrower or is rescinded upon the insolvency, bankruptcy or reorganization of the Borrower.

### Limitation of Liability

Notwithstanding anything to the contrary contained in the Indenture or in the Debt Service Payment Agreement, whether express or implied, The Regents shall in no event: (i) be required to pay or be liable under any circumstances for any consequential, indirect or punitive damages, opportunity costs or lost profits relating to the Bonds or otherwise; or (ii) make any payment from any of its funds that are not lawfully available to make such payment, including without limitation (a) any moneys which are restricted as to expenditure by a granting agency or donor or (b) educational appropriations made by the State.

**Binding Agreement; Limitation of Rights to Parties and Bondholders**

The Regents shall not be permitted to transfer, convey, assign or delegate the Debt Service Payment Agreement or any interest therein without the prior written consent of the Trustee, which consent shall only be granted by the Trustee if The Regents has filed with the Trustee written confirmation that the credit ratings on the Bonds from Moody's and Standard & Poor's shall not be reduced following such transfer, conveyance, assignment or delegation. Nothing in the Debt Service Payment Agreement or in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than The Regents, the Trustee and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Debt Service Payment Agreement or any covenant, condition or provision therein or in the Debt Service Payment Agreement contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of The Regents, the Trustee and the Owners of the Bonds.

# APPENDIX D

## PROPOSED FORM OF BOND COUNSEL OPINION

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October 6, 2016

California Infrastructure and
Economic Development Bank
Sacramento, California

California Infrastructure and Economic Development Bank
Revenue Bonds (Sanford Consortium Project) Series 2016A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Infrastructure and Economic Development Bank (the "Issuer") in connection with issuance of $54,280,000 aggregate principal amount of California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2016A (the "Bonds"), issued pursuant to an Indenture, dated as of October 1, 2016 (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the stated purpose of making a loan of the proceeds thereof to the Sanford Consortium for Regenerative Medicine (the "Borrower") pursuant to a Loan Agreement, dated as of October 1, 2016 (the "Loan Agreement"), between the Issuer and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), between the Issuer and the Borrower, opinions of counsel to the Issuer, the Trustee and the Borrower, certificates of the Issuer, the Trustee, the Borrower and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Rodriguez, Horii, Choi & Cafferata LLP, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Borrower regarding the use of the facilities financed or refinanced with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Borrower does not address Section 513 of the Code. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed or refinanced facilities in activities that are considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the

Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public instrumentalities and agencies of the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Issuer.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

## APPENDIX E

## BOOK-ENTRY ONLY SYSTEM

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC. THE INFRASTRUCTURE BANK, THE REGENTS AND THE BORROWER TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

So long as Cede & Co is the registered holder of the Series 2016A Bonds, as nominee of DTC, references in this Official Statement, including the Appendices hereto, to the Owners of the Series 2016A Bonds (other than as set forth under "TAX MATTERS") shall mean Cede & Co. and shall not mean the Beneficial Owners (as defined herein) of the Series 2016A Bonds.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2016A Bonds. The Series 2016A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2016A Bond certificate will be issued for each maturity of the Series 2016A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2016A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016A Bonds on DTC 's records. The ownership interest of each actual purchaser of each Series 2016A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016A Bonds, except in the event that use of the book-entry system for the Series 2016A Bonds is discontinued.

To facilitate subsequent transfers, all the Series 2016A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2016A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016A Bonds are credited, which may or may not be the Beneficial

Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2016A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the financing documents. For example, Beneficial Owners of the Series 2016A Bonds may wish to ascertain that the nominee holding the Series 2016A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2016A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Infrastructure Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2016A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Infrastructure Bank or the Trustee, on payment dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Infrastructure Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Infrastructure Bank or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2016A Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Series 2016A Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2016A Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of the Series 2016A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2016A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2016A Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2016A Bonds at any time by giving reasonable notice to the Infrastructure Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2016A Bond certificates are required to be printed and delivered.

The Infrastructure Bank may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2016A Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Infrastructure Bank, the Borrower and The Regents believe to be reliable, but none of the Infrastructure Bank, the Borrower or The Regents takes any responsibility for the accuracy thereof.

# APPENDIX F

## FORMS OF CONTINUING DISCLOSURE AGREEMENT

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Continuing Disclosure Agreement") is being executed and delivered by The Regents of the University of California ("The Regents"), BLX Group LLC, as dissemination agent (the "Dissemination Agent") and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee"), in connection with the issuance of $54,280,000 aggregate principal amount of California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2016A (the "Series 2016A Bonds"). The Series 2016A Bonds are being issued pursuant to an Indenture of Trust, dated as of October 1, 2016 (the "Indenture"), between the California Infrastructure and Economic Development Bank (the "Issuer") and the Trustee. The proceeds of the Series 2016A Bonds are being loaned by the Issuer to Sanford Consortium for Regenerative Medicine (the "Borrower") pursuant to a Loan Agreement, dated as of October 1, 2016 (the "Loan Agreement"), between the Issuer and the Borrower. Pursuant to the provisions of the Indenture, The Regents, the Dissemination Agent and the Trustee covenant and agree as follows:

**SECTION 1. Purpose of the Continuing Disclosure Agreement.** This Continuing Disclosure Agreement is being executed and delivered at closing by The Regents, the Dissemination Agent and the Trustee for the benefit of the Owners and Beneficial Owners (as such terms are defined in the Indenture) of the Series 2016A Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Regents and the Trustee acknowledge that the Issuer (a) has not undertaken any responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement and that the Issuer (b) has no liability to any person, including any Owner or Beneficial Owner of the Series 2016A Bonds with respect to the Rule.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

**Annual Report** shall mean any Annual Report provided by The Regents pursuant to, and as described in, Sections 3 and 4 of this Continuing Disclosure Agreement.

**Disclosure Representative** shall mean the Executive Vice President-Chief Financial Officer of the University of California or his designee, or such other officer or employee as The Regents shall designate in writing to the Trustee from time to time.

**Dissemination Agent** shall mean BLX Group LLC, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by The Regents and which has filed with the Trustee a written acceptance of such designation.

**Listed Events** shall mean any of the events listed in Section 5(A) or (B) of this Continuing Disclosure Agreement.

**Participating Underwriter** shall mean any of the original underwriters of the Series 2016A Bonds required to comply with the Rule in connection with the offering of the Series 2016A Bonds.

**Repository** shall mean the Municipal Securities Rulemaking Board (the "MSRB") or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

**Rule** shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SEC** shall mean the Securities and Exchange Commission and any successor agency thereto.

**SECTION 3. Provision of Annual Reports.** (A) The Regents shall, or shall cause the Dissemination Agent to, not later than seven (7) months after the end of the Fiscal Year of The Regents (presently June 30), commencing with the Annual Report for the Fiscal Year ending June 30, 2016, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Continuing Disclosure Agreement. Each Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository, and may include by reference other information as provided in Section 4 of this Continuing Disclosure Agreement; provided that the audited financial statements referenced in Section 4 hereof may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the Fiscal Year of The Regents changes, The Regents shall give notice of such change in the same manner as for a Listed Event under Section 5(E) of this Continuing Disclosure Agreement. If The Regents provides the Annual Report to the Repository, it shall notify the Dissemination Agent that it has done so.

(B) Not later than fifteen (15) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the Repository, The Regents shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact The Regents to determine if The Regents is in compliance with the first sentence of this subsection (B).

(C) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (A), the Dissemination Agent shall send a notice, in electronic format unless otherwise designated by the SEC, to the Repository in substantially the form attached as Exhibit A hereto.

(D) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository; and

(ii) file a report with The Regents and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Continuing Disclosure Agreement, stating the date it was provided to the Repository.

**SECTION 4. Content of Annual Reports.** The Annual Report shall contain or include by reference the following:

The audited financial statements of The Regents for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles applicable to public colleges and universities. If such audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format that complies with current generally accepted accounting principles, relating to the Series 2016A Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report when such financial statements become available.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of The Regents, which have been filed with the Repository or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Regents shall clearly identify each such other document so included by reference.

**SECTION 5.** Reporting of Significant Events.

(A) Pursuant to the provisions of this Section 5, The Regents shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016A Bonds not later than ten (10) Business Days after the occurrence of the event:

1. Bankruptcy, insolvency, receivership or similar event of The Regents.

Note: for the purposes of the event identified in subparagraph (1), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(B) The Regents shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016A Bonds, if material, not later than ten (10) Business Days after the occurrence of the event:

1. The consummation of a merger, consolidation, or acquisition involving The Regents or the sale of all or substantially all of the assets of The Regents, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a

definitive agreement relating to any such actions, other than pursuant to its terms.

(C) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that The Regents promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (E).

(D) Whenever The Regents obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (C) or otherwise, The Regents shall as soon as possible determine if such event would be material under applicable federal securities laws.

(E) If The Regents learns of the occurrence of a Listed Event described in Section 5(A) hereof, or determines that knowledge of a Listed Event described in Section 5(B) hereof would be material under applicable federal securities laws, The Regents shall provide or cause to be provided a form of notice of such occurrence to the Dissemination Agent and shall instruct the Dissemination Agent to file the notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB within ten (10) Business Days of occurrence. If the Dissemination Agent has been instructed by The Regents to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository in electronic format, accompanied by such identifying information as is prescribed by the Repository, with a copy to The Regents.

**SECTION 6. Termination of Reporting Obligation.** The Regents' obligations under this Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2016A Bonds. If such termination occurs prior to the final maturity of the Series 2016A Bonds, The Regents shall give notice of such termination in the same manner as for a Listed Event under Section 5(E).

**SECTION 7. Dissemination Agent.** The Regents may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by The Regents pursuant to this Continuing Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Continuing Disclosure Agreement, The Regents, the Dissemination Agent and the Trustee may amend this Continuing Disclosure Agreement (and the Dissemination Agent and Trustee shall each agree to any amendment so requested by The Regents that does not adversely affect its rights or increase its duties hereunder), and any provision of this Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(A) If the amendment or waiver relates to certain portions of the sections relating to the provision of annual reports, or the content of annual reports or the list of significant events, such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2016A Bonds, or the type of business conducted;

(B) This Continuing Disclosure Agreement, as amended or taking into account the waiver proposed, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2016A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(C) The amendment or waiver either (i) is approved by the Owners of the Series 2016A Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Series 2016A Bonds.

In the event of any amendment or waiver of a provision of this Continuing Disclosure Agreement, The Regents shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by The Regents. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(E) hereof, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 9. Additional Information.** Nothing in this Continuing Disclosure Agreement shall be deemed to prevent The Regents from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Continuing Disclosure Agreement. If The Regents chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Continuing Disclosure Agreement, The Regents shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 10. Default.** In the event of a failure of The Regents or the Dissemination Agent to comply with any provision of this Continuing Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 50% aggregate principal amount of Outstanding Series 2016A Bonds and upon receipt of indemnity satisfactory to it, shall), or any Owner or Beneficial Owner of the Series 2016A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause The Regents or the Dissemination Agent, as the case may be, to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement shall not be deemed an Event of Default under the

Indenture, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of The Regents or the Dissemination Agent to comply with this Continuing Disclosure Agreement shall be an action to compel performance.

**SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article VIII of the Indenture is made applicable to this Continuing Disclosure Agreement as if this Continuing Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Continuing Disclosure Agreement, and The Regents agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties under this Continuing Disclosure Agreement, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of The Regents described under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2016A Bonds.

**SECTION 12. Beneficiaries.** This Continuing Disclosure Agreement shall inure solely to the benefit of The Regents, the Trustee, the Dissemination Agent, the Participating Underwriters and Owners and Beneficial Owners from time to time of the Series 2016A Bonds, and shall create no rights in any other person or entity.

**SECTION 13. Notices.** All notices or communications to or among any of the parties to this Continuing Disclosure Agreement shall be given as follows:

To The Regents: The Regents of the University of California
Capital Markets Finance
1111 Franklin Street, 6th Floor
Oakland, California 94607
Attention: Associate Vice President - Finance
Telephone: (510) 987-9660

To the Trustee: The Bank of New York Mellon Trust Company, N.A.
400 S. Hope St., Suite 500
Los Angeles, California 90071
Attention: Corporate Trust
Telephone: (213) 630-6268
Fax: (213) 630-6215

To the Dissemination Agent: BLX Group LLC
777 South Figueroa Street, Suite 3200
Los Angeles, California 90017
Attention: Managing Director
Telephone: (213) 612-2209
Fax: (213) 612-2499

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) or fax number(s) to which subsequent notices or communications should be sent.

**SECTION 14.** **Governing Law**. This Continuing Disclosure Agreement shall be construed in accordance with and governed by the laws of the State of California.

**SECTION 15.** **Counterparts**. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

________________________________________
Authorized Signatory

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

________________________________________
Authorized Officer

BLX GROUP LLC,
as Dissemination Agent

________________________________________
Authorized Officer

**EXHIBIT A**

**NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT**

| | |
|---|---|
| Name of Obligated Person: | The Regents of the University of California |
| Name of Issuer: | California Infrastructure and Economic Development Bank |
| Name of Bond Issue: | $54,280,000 California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2016A |
| Name of Borrower: | Sanford Consortium for Regenerative Medicine |
| Date of Issuance: | October 6, 2016 |

NOTICE IS HEREBY GIVEN that The Regents of the University of California has not provided an Annual Report with respect to the above-named Series 2016A Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of October 6, 2016, among The Regents, BLX Group LLC, as dissemination agent and The Bank of New York Mellon Trust Company, N.A., as trustee. [The Regents anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

BLX GROUP LLC, as Dissemination Agent

cc: The Regents
The Bank of New York Mellon Trust Company, N.A.

## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Continuing Disclosure Agreement") is being executed and delivered by the Sanford Consortium for Regenerative Medicine (the "Borrower"), The Bank of New York Mellon Trust Company, N.A., as dissemination agent (in such capacity, the "Dissemination Agent") and as trustee (in such capacity, the "Trustee"), in connection with the issuance of $54,280,000 aggregate principal amount of California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2016A (the "Series 2016A Bonds"). The Series 2016A Bonds are being issued pursuant to an Indenture of Trust, dated as of October 1, 2016 (the "Indenture"), between the California Infrastructure and Economic Development Bank (the "Issuer") and the Trustee. The proceeds of the Series 2016A Bonds are being loaned by the Issuer to the Borrower pursuant to a Loan Agreement, dated as of October 1, 2016 (the "Loan Agreement"), between the Issuer and the Borrower. Pursuant to the provisions of the Indenture, the Borrower, the Dissemination Agent and the Trustee covenant and agree as follows:

**SECTION 1. Purpose of the Continuing Disclosure Agreement.** This Continuing Disclosure Agreement is being executed and delivered at closing by the Borrower, the Dissemination Agent and the Trustee for the benefit of the Owners and Beneficial Owners (as such terms are defined in the Indenture) of the Series 2016A Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Borrower and the Trustee acknowledge that the Issuer (a) has not undertaken any responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement and that the Issuer (b) has no liability to any person, including any Owner or Beneficial Owner of the Series 2016A Bonds with respect to the Rule.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

**Annual Report** shall mean any Annual Report provided by the Borrower pursuant to, and as described in, Sections 3 and 4 of this Continuing Disclosure Agreement.

**Disclosure Representative** shall mean the Vice President & Chief Operating Officer of the Borrower or his designee, or such other officer or employee as the Borrower shall designate in writing to the Trustee from time to time.

**Dissemination Agent** shall mean The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Borrower and which has filed with the Trustee a written acceptance of such designation.

**Listed Events** shall mean any of the events listed in Section 5(A) or (B) of this Continuing Disclosure Agreement.

**Participating Underwriter** shall mean any of the original underwriters of the Series 2016A Bonds required to comply with the Rule in connection with the offering of the Series 2016A Bonds.

**Repository** shall mean the Municipal Securities Rulemaking Board (the "MSRB") or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

**Rule** shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SEC** shall mean the Securities and Exchange Commission and any successor agency thereto.

**State** shall mean the State of California.

**SECTION 3. Provision of Annual Reports.** (A) The Borrower shall, or shall cause the Dissemination Agent to, not later than seven (7) months after the end of the Fiscal Year of the Borrower (presently December 31), commencing with the Annual Report for the Fiscal Year ending December 31, 2016, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Continuing Disclosure Agreement. Each Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository, and may include by reference other information as provided in Section 4 of this Continuing Disclosure Agreement; provided that such audited financial statements referenced in Section 4 hereof may be submitted later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the Fiscal Year of the Borrower changes, the Borrower shall give notice of such change in the same manner as for a Listed Event under Section 5(E) of this Continuing Disclosure Agreement. If the Borrower provides the Annual Report to the Repository, it shall notify the Dissemination Agent that it has done so.

(B) Not later than fifteen (15) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the Repository, the Borrower shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Borrower to determine if the Borrower is in compliance with the first sentence of this subsection (B). The Trustee shall have no responsibility to review, verify or analyze such Annual Report. It shall retain such Annual Report solely as a repository for the holders of the Series 2016A Bonds and shall not be deemed to have notice of any default or Event of Default (as defined in the Indenture) disclosed therein.

(C) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (A), the Dissemination Agent shall send a notice, in electronic format unless otherwise designated by the SEC, to the Repository in substantially the form attached as Exhibit A hereto.

(D) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository; and

(ii) file a report with the Borrower and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Continuing Disclosure Agreement, stating the date it was provided to the Repository.

**SECTION 4. Content of Annual Reports.** The Annual Report shall contain or include by reference the following:

The audited financial statements of the Borrower for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles. If such audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format that complies with current generally accepted accounting principles and the audited financial statements shall be filed in the same manner as the Annual Report when such financial statements become available.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Borrower, which have been filed with the Repository or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Borrower shall clearly identify each such other document so included by reference.

**SECTION 5.** Reporting of Significant Events.

(A) Pursuant to the provisions of this Section 5, the Borrower shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016A Bonds not later than ten (10) Business Days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the Borrower.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Borrower in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Borrower, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Borrower.

(B) The Borrower shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016A Bonds, if material, not later than ten (10) Business Days after the occurrence of the event:

1. Unless described in paragraph (A)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2016A Bonds or other material events affecting the tax status of the Series 2016A Bonds;

2. Modifications to rights of Owners;

3. Optional, contingent or unscheduled 2016 Bond calls;

4. Release, substitution, or sale of property securing repayment of the Series 2016A Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(C) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Borrower promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (E). The Trustee, in so notifying the Disclosure Representative, shall not have any duty to determine the materiality of such Listed Event or determine whether such Listed Event reflects financial difficulties.

(D) Whenever the Borrower obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (C) or otherwise, the Borrower shall, with respect to those Listed Events in subsection (B) above, as soon as possible determine if such event would be material under applicable federal securities laws.

(E) If the Borrower learns of the occurrence of a Listed Event described in Section 5(A) hereof, or determines that knowledge of a Listed Event described in Section 5(B) hereof would be material under applicable federal securities laws, the Borrower shall provide or cause to be provided a form of notice of such occurrence to the Dissemination Agent and shall instruct the Dissemination Agent to file the notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB within ten (10) Business Days of occurrence, provided the Dissemination Agent receives such notice in a timely manner. If the Dissemination Agent has been instructed by the Borrower to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository in electronic format, accompanied by such identifying information as is prescribed by the Repository, with a copy to the Borrower. Notwithstanding the foregoing, notice of Listed Events described in subsections (A)(7) and (B)(3) of this section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2016A Bonds pursuant to the Indenture.

**SECTION 6. Termination of Reporting Obligation.** The Borrower's obligations under this Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2016A Bonds. If such termination occurs prior to the final maturity of the Series 2016A Bonds, the Borrower shall give notice of such termination in the same manner as for a Listed Event under Section 5(E).

**SECTION 7. Dissemination Agent.** The Borrower may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Borrower pursuant to this Continuing Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Continuing Disclosure Agreement, the Borrower, the Dissemination Agent and the Trustee may amend this Continuing Disclosure Agreement (and the Dissemination Agent and Trustee shall each agree to any amendment so requested by the Borrower that does not adversely affect its rights or increase its duties hereunder), and any provision of this Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(A) If the amendment or waiver relates to certain portions of the sections relating to the provision of annual reports, or the content of annual reports or the list of significant events, such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Borrower as an obligated person with respect to the Series 2016A Bonds, or the type of business conducted;

(B) This Continuing Disclosure Agreement, as amended or taking into account the waiver proposed, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2016A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(C) The amendment or waiver either (i) is approved by the Owners of the Series 2016A Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Series 2016A Bonds.

In the event of any amendment or waiver of a provision of this Continuing Disclosure Agreement, the Borrower shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(E) hereof, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 9. Additional Information.** Nothing in this Continuing Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Continuing Disclosure Agreement. If the Borrower chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Continuing Disclosure Agreement, the Borrower shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 10. Default.** In the event of a failure of the Borrower or the Dissemination Agent to comply with any provision of this Continuing Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Series 2016A Bonds and upon receipt of indemnity satisfactory to it, shall), or any Owner or Beneficial Owner of the Series 2016A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower or the Dissemination Agent, as the case may be, to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of the Borrower, the Trustee or the Dissemination Agent to comply with this Continuing Disclosure Agreement shall be an action to compel performance.

**SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article VIII of the Indenture is made applicable to this Continuing Disclosure Agreement as if this Continuing Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Trustee shall have the same rights, protections, immunities, limitations on liability and indemnities hereunder as accorded to it under the Indenture and the Loan Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Continuing Disclosure Agreement, and the Borrower agrees to indemnify and save the Trustee and the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties under this Continuing Disclosure Agreement, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Borrower described under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2016A Bonds.

**SECTION 12. Beneficiaries.** This Continuing Disclosure Agreement shall inure solely to the benefit of the Borrower, the Trustee, the Dissemination Agent, the Participating Underwriters and Owners and Beneficial Owners from time to time of the Series 2016A Bonds, and shall create no rights in any other person or entity.

**SECTION 13. Notices.** All notices or communications to or among any of the parties to this Continuing Disclosure Agreement shall be given as follows:

To the Borrower: Sanford Consortium for Regenerative Medicine
2880 Torrey Pines Scenic Drive
La Jolla, California 92037
Attention: Vice President and Chief Operating Officer
Telephone: (858) 246-1101

To the Dissemination Agent: The Bank of New York Mellon Trust Company, N.A.
400 S. Hope St., Suite 500
Los Angeles, California 90071
Attention: Corporate Trust
Telephone: (213) 630-6268
Fax: (213) 630-6215

To the Trustee: The Bank of New York Mellon Trust Company, N.A.
400 S. Hope St., Suite 500
Los Angeles, California 90071
Attention: Corporate Trust
Telephone: (213) 630-6228
Fax: (213) 630-6215

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) or fax number(s) to which subsequent notices or communications should be sent.

**SECTION 14.** **Governing Law**. This Continuing Disclosure Agreement shall be construed in accordance with and governed by the laws of the State of California.

**SECTION 15.** **Counterparts**. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SANFORD CONSORTIUM FOR
REGENERATIVE MEDICINE

____________________________________
Jeffrey A. Steindorf, Ph.D.
Vice President & Chief Operating Officer

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A.,
as Dissemination Agent and Trustee

____________________________________
Authorized Officer

## EXHIBIT A

## NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

| | |
|---|---|
| Name of Obligated Person: | Sanford Consortium for Regenerative Medicine |
| Name of Issuer: | California Infrastructure and Economic Development Bank |
| Name of Bond Issue: | $54,280,000 California Infrastructure and Economic Development Bank Revenue Bonds (Sanford Consortium Project) Series 2016A |
| Name of Borrower: | Sanford Consortium for Regenerative Medicine |
| Date of Issuance: | October 6, 2016 |

NOTICE IS HEREBY GIVEN that the Borrower has not provided an Annual Report with respect to the above-named Series 2016A Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of October 6, 2016, among the Borrower, The Bank of New York Mellon Trust Company, N.A., as dissemination agent and trustee. [The Borrower anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Dissemination Agent

cc: The Borrower
The Bank of New York Mellon Trust Company, N.A.

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# APPENDIX G

## AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR FISCAL YEARS ENDED DECEMBER 31, 2015 AND 2014

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Report of Independent Auditors and
Financial Statements for

# Sanford Consortium for Regenerative Medicine

December 31, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

**CONTENTS**

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

# REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Sanford Consortium for Regenerative Medicine

**Report on Financial Statements**
We have audited the accompanying financial statements of Sanford Consortium for Regenerative Medicine, which comprise the statements of financial position as of December 31, 2015 and 2014, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sanford Consortium for Regenerative Medicine as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
June 8, 2016

# SANFORD CONSORTIUM FOR REGENERATIVE MEDICINE
## STATEMENTS OF FINANCIAL POSITION
## DECEMBER 31, 2015 AND 2014

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | $ 1,601,987 | $ 7,965,197 |
| Receivables | 158,991 | 111,694 |
| Investment | 6,016,330 | - |
| Prepaid expenses and other assets | 106,014 | 116,210 |
| Total current assets | 7,883,322 | 8,193,101 |
| **Property and Equipment** | 102,812,061 | 108,320,921 |
| Total assets | $ 110,695,383 | $ 116,514,022 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | $ 516,576 | $ 470,589 |
| Current portion of bonds payable | 1,245,000 | 1,195,000 |
| Deferred revenue | 60,625 | 60,625 |
| Total current liabilities | 1,822,201 | 1,726,214 |
| **Long-term Liabilities** | | |
| Bonds payable | 56,823,144 | 58,347,163 |
| Deferred revenue | - | 60,626 |
| Total long-term liabilities | 56,823,144 | 58,407,789 |
| Total liabilities | 58,645,345 | 60,134,003 |
| **Commitments and Contingencies (Notes 7 and 8)** | | |
| **Net Assets** | | |
| Unrestricted: | | |
| Designated for property and equipment | 44,034,364 | 48,040,115 |
| Undesignated | 8,015,674 | 8,339,904 |
| Total unrestricted net assets | 52,050,038 | 56,380,019 |
| Total liabilities and net assets | $ 110,695,383 | $ 116,514,022 |

See accompanying notes.

## SANFORD CONSORTIUM FOR REGENERATIVE MEDICINE
### STATEMENTS OF ACTIVITIES
### YEARS ENDED DECEMBER 31, 2015 AND 2014

| | Years Ended December 31, 2015 | Years Ended December 31, 2014 |
|---|---|---|
| **SUPPORT AND REVENUE** | | |
| License fees | $ 4,627,690 | $ 4,528,638 |
| Lease income | 3,080,503 | 2,947,831 |
| Contract research organization revenue | 129,529 | 57,584 |
| Other income | 114,047 | 78,236 |
| Rental income - other | 90,836 | 48,902 |
| Rental income - café | 66,428 | 55,679 |
| Grant revenue | 50,000 | 40,000 |
| Investment income | 26,531 | 13,410 |
| Contributions | - | 52,850 |
| Total support and revenue | 8,185,564 | 7,823,130 |
| **EXPENSES** | | |
| Management and general | 12,515,545 | 12,225,625 |
| Total expenses | 12,515,545 | 12,225,625 |
| **CHANGE IN NET ASSETS** | (4,329,981) | (4,402,495) |
| **NET ASSETS** | | |
| Beginning of year | 56,380,019 | 60,782,514 |
| End of year | $ 52,050,038 | $ 56,380,019 |

# SANFORD CONSORTIUM FOR REGENERATIVE MEDICINE
## STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2015 AND 2014

| | Years Ended December 31, | |
|---|---|---|
| | **2015** | **2014** |
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ (4,329,981) | $ (4,402,495) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 5,685,722 | 5,434,570 |
| Amortization of bond issuance costs | 29,090 | 29,089 |
| Amortization of premium on bonds payable | (308,109) | (320,982) |
| Reinvested interest income | (16,330) | - |
| Interest payable on CIRM advance | - | (117,077) |
| Change in operating assets and liabilities: | | |
| Receivables | (47,297) | 15,982 |
| Prepaid expenses and other assets | 10,196 | (93,395) |
| Accounts payable and accrued liabilities | 45,987 | (25,728) |
| Deferred revenue | (60,626) | (60,626) |
| Net cash provided by operating activities | 1,008,652 | 459,338 |
| **INVESTING ACTIVITIES** | | |
| Purchase of investment | (6,000,000) | - |
| Additions to property and equipment | (176,862) | (125,047) |
| Net cash (used in) investing activities | (6,176,862) | (125,047) |
| **FINANCING ACTIVITIES** | | |
| Payment on bonds payable | (1,195,000) | (1,150,000) |
| Net cash (used in) financing activities | (1,195,000) | (1,150,000) |
| **NET (DECREASE) IN CASH AND CASH EQUIVALENTS** | (6,363,210) | (815,709) |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning of year | 7,965,197 | 8,780,906 |
| End of year | $ 1,601,987 | $ 7,965,197 |

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | | |
|---|---|---|
| Cash payments for: | | |
| Interest | $ 2,850,850 | $ 2,897,750 |
| Taxes | $ 750 | $ 1,000 |

See accompanying notes.

**Note 1 – Nature of Sanford Consortium for Regenerative Medicine**

Sanford Consortium for Regenerative Medicine, San Diego, California ("Sanford Consortium") is a California not-for-profit public benefit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Income determined to be unrelated business income is taxable when present.

Sanford Consortium was formed by the Sanford-Burnham Medical Research Institute, the Salk Institute for Biological Studies, The Scripps Research Institute, and the University of California, San Diego campus of The Regents of the University of California ("The Regents") ("Collaborating Organizations") to plan, finance, construct, and operate a stem cell research laboratory building (the "Collaboratory") to enable and facilitate inter-institutional, multi-disciplinary collaborative stem cell and related field research and education. During 2011, the La Jolla Institute for Allergy and Immunology became a fifth Collaborating Organization.

**Note 2 – Significant Accounting Policies**

**General** – The financial statements have been prepared on the accrual basis of accounting and reflect all adjustments necessary for the fair presentation of the financial position and changes in net assets of Sanford Consortium in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Net assets and activities are presented as unrestricted or temporarily or permanently restricted. Unrestricted net assets represent funds, the use of which is not limited by donor restrictions and that are available to fund current operations. Temporarily restricted net assets consist of contributed funds, the use of which is limited by donor-imposed restrictions that either expire by the passage of time or that can be satisfied by actions of Sanford Consortium consistent with donor stipulations. Permanently restricted net assets are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations. There are no temporarily restricted or permanently restricted net assets at December 31, 2015 or 2014.

**Revenue Recognition**

**License fees** – License fees are recognized monthly as amounts become due from the Collaborating Organizations under the terms of the Collaboratory Agreement (see Note 7).

**Lease income** – Lease income is recognized monthly as amounts become due from the tenant under the terms of the Space Lease (see Note 7).

**Contract research organization revenue** – Revenue is earned per the terms of the agreement with a third-party contract research organization for the operation and management of imaging equipment owned by Sanford Consortium and located at the Collaboratory (see Note 7 – Imaging Equipment.)

**Note 2 – Significant Accounting Policies (continued)**

**Revenue Recognition (continued)**

**Other income** – Included in other income are fees paid for special events and an administration fee paid to Sanford Consortium annually under an agreement between the Collaborating Organizations and a third party. Revenue is recognized as special events occur and in the year the administrative services are provided.

**Rental income – other** – Revenue is earned from third parties for use of Sanford Consortium's facilities and for parking fees. Revenue is recognized from these sources as services are provided.

**Rental income – café** – Revenue is earned monthly per the terms of an agreement with a third party to operate a cafe at the Sanford Consortium facility (see Note 7 – Café.)

**Grant revenue** – Sanford Consortium applies for grants to host scientific conferences. Revenue is recognized from these grants to the extent that eligible costs are incurred.

**Deferred revenue** – Amounts received prior to satisfaction of terms under contractual agreements are recorded as deferred revenue.

**Contributions** – Contributions are recorded as revenue at their fair value when unconditionally pledged or when received, whichever is earlier. Contributions subject to a donor-imposed restriction for use in a future period or for a specific purpose are reported as either temporarily restricted or permanently restricted depending on the nature of the donor's restriction. When a donor restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

**Receivables** – Receivables consist of amounts due under the Collaboratory Agreement and Space Lease agreement (see Note 7) that have not yet been collected. Amounts are generally considered past due if not collected within 30 days of billings. Interest is not charged on outstanding balances.

**Allowance for estimated uncollectible accounts** – An allowance for estimated uncollectible receivables is recorded based on an analysis of current receivables. Receivables are written off against the allowance when deemed uncollectible. Management has determined that no allowance on the receivables is necessary at December 31, 2015 or 2014.

**Note 2 – Significant Accounting Policies (continued)**

**Investment** – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of the investment in The Regents short-term investment pool ("STIP") for which quoted market prices are not available is based on the unit value of Sanford Consortium's interest in the STIP. The unit value (net asset value as the practical expedient), as determined by The Regents, is based on the fair value of the underlying assets. The STIP is primarily invested in fixed-income securities with a maximum maturity of five and one-half years and was designed to allow participants to maximize returns on short-term cash balances.

As of December 31, 2015, Sanford Consortium adopted Accounting Standards Update ("ASU") 2015-07, *Fair Value Hierarchy Levels for Certain Investments Measured at Net Asset Value,* which allows investments valued at net asset value to be excluded from the fair value hierarchy categorization requirements. As Sanford Consortium's investment in the STIP is valued at net asset value, it is not categorized under the fair value hierarchy. Management of Sanford Consortium reviews and evaluates the values and methodology used to determine the fair value provided by The Regents monthly. Sanford Consortium agrees with the valuation method used at December 31, 2015.

**Property and equipment** – Property and equipment is recorded at cost, if purchased. Donated property and equipment is recorded at its fair value as determined at the time of contribution. Sanford Consortium capitalizes acquisitions of property and equipment of $5,000 or more. Depreciation is recorded when an asset is placed in service and is computed using the straight-line method over the estimated useful lives of the assets (5 years for equipment and 39 years for the building).

**Bonds payable and debt issuance costs** – As of December 31, 2015, Sanford Consortium adopted ASU 2015-03, *Interest – Imputation of Interest,* which requires debt issuance costs be reported as a direct deduction of the carrying amount of the associated debt liability. ASU 2015-03 requires retrospective application for all periods presented. As a result, debt issuance costs associated with bonds payable have been reclassified and presented as a deduction from bonds payable as of December 31, 2014 in the accompanying statement of financial position (see Note 8).

Bond issuance costs of approximately $872,000 are related to the issuance of Sanford Consortium Bonds. The costs are being amortized over the term of the bonds (30 years) using the straight-line method, which approximates the effective-interest method. Accumulated amortization as of December 31, 2015 and 2014 was approximately $163,000 and $134,000, respectively.

**Income taxes** – Sanford Consortium has no unrecognized tax benefits or liabilities as of December 31, 2015 or 2014. Sanford Consortium files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California. For each of the years ended December 31, 2015 and 2014, taxes on unrelated business income were recorded when paid and no provision for income tax has been made. Sanford Consortium is no longer subject to income tax examinations by taxing authorities for years before 2013 for its federal filings and for years before 2012 for its state filings.

## Note 2 – Significant Accounting Policies (continued)

**Fair value of financial instruments** – The carrying values of receivables and accounts payable approximate their fair values due to the relatively short period of time between origination of the instruments and their expected realization. These assets and liabilities are considered by the Sanford Consortium to be Level 1 measurements in the fair value hierarchy. See the fair value of the investment at Note 4 and bonds payable at Note 8.

**Use of estimates** – The preparation of financial statements in accordance with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent events** – Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are issued. Sanford Consortium recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. Sanford Consortium's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued.

Sanford Consortium has evaluated subsequent events through June 8, 2016, which is the date the financial statements were available to be issued.

## Note 3 – Collaboratory Development and Funding

Sanford Consortium was formed to plan, finance, construct, and operate the Collaboratory. The cost to construct and equip the Collaboratory was funded with philanthropy (a donor contributed $30,000,000); a Major Facilities Grant of $43,0000,000 awarded to Sanford Consortium by the California Institute for Regenerative Medicine; and debt that Sanford Consortium borrowed during 2010 (Note 8). Construction of the Collaboratory was completed and a final certificate of occupancy was issued in December 2011.

**Note 4 – Investment and Fair Value Measurement**

During 2015, as an affiliate of The Regents, Sanford Consortium was allowed to invest in The Regents STIP. In October 2015, Sanford Consortium invested $6,000,000 in the STIP. As of December 31, 2015, the fair value of Sanford Consortium's investment in the STIP is $6,016,330. Distributions are made monthly to Sanford Consortium for interest and realized gains or losses for the period. These distributions totaling $16,330 for the year ended December 31, 2015 were reinvested in the STIP.

Sanford Consortium has the right to make withdrawals of its investment in the STIP with five days written notice, at an amount not less than $100,000, and no more than once per quarter. At the sole discretion of The Regents, Sanford Consortium may make additional withdrawals. Sanford Consortium has no commitment to invest additional funds in the STIP.

**Note 5 – Property and Equipment**

Property and equipment at December 31 is summarized as follows:

| | 2015 | 2014 |
|---|---|---|
| Building | $ 107,851,363 | $ 107,823,750 |
| Equipment | 15,268,449 | 15,119,200 |
| Less accumulated depreciation | (20,307,751) | (14,622,029) |
| Total | $ 102,812,061 | $ 108,320,921 |

**Note 6 – Concentrations of Credit Risk**

Cash in bank deposit accounts exceeds federally-insured deposit limits. No losses have been experienced in such accounts.

**Note 7 – Related-Party Transactions and Third-Party Agreements**

**Collaboratory agreement** – In November 2009, Sanford Consortium and the Collaborating Organizations entered into a license agreement ("Collaboratory Agreement") pursuant to which Sanford Consortium granted to the Collaborating Organizations a non-exclusive license to use space in the Collaboratory for stem cell research. The Collaboratory Agreement is for an initial term of ten years which began on January 1, 2012. The Collaborating Organizations pay a license fee monthly in an amount equal to their share of Sanford Consortium's debt service and operating expenses allocable to the portion of the Collaboratory occupied for stem cell research, plus any amount payable under the Ground Lease.

**Note 7 – Related-Party Transactions and Third-Party Agreements (continued)**

**Space lease** – In November 2009, in addition to the Collaboratory Agreement, Sanford Consortium and The Regents entered into a space lease agreement ("Space Lease") pursuant to which Sanford Consortium agreed to lease to The Regents research laboratory space in the Collaboratory that will not be occupied for stem cell research ("Excess Space"). The Space Lease for such Excess Space is for an initial term of ten years which began on January 1, 2012. The Regents pays rent monthly in an amount equal to the share of Sanford Consortium's debt service and operating expenses allocable to the Excess Space, plus any amount payable under the Ground Lease.

As of December 31, 2015, future committed amounts presented in the table below to be received by Sanford Consortium from the Collaborating Organizations under the Collaboratory Agreement and the Space Lease for the initial terms of these agreements ending December 31, 2021 relate solely to the Collaborating Organizations' proportionate shares of Sanford Consortium's debt service. The table does not include estimated amounts for the Collaborating Organizations' proportionate shares of Sanford Consortium's operating expenses.

| | |
|---|---|
| Years ending December 31, | |
| 2016 | $ 4,040,825 |
| 2017 | 4,034,900 |
| 2018 | 4,036,925 |
| 2019 | 4,032,375 |
| 2020 | 4,023,125 |
| Thereafter | 4,022,781 |
| Total | $ 24,190,931 |

**Ground lease and parking license** – The Collaboratory is located on land that is owned by The Regents. The right to use the site to develop and occupy the Collaboratory and its associated parking has been conveyed to Sanford Consortium by The Regents pursuant to a 52-year unsubordinated ground lease and a parking license entered into by Sanford Consortium and The Regents in 2009 ("Ground Lease").

The Ground Lease grants to Sanford Consortium rights to use the site to develop and operate the Collaboratory for a) research, b) product development and testing, c) related production and assembly of prototypes and pilot facilities, and/or d) provision of research-related services that support and enhance Sanford Consortium's or The Regent's research and academic programs.

**Note 7 – Related-Party Transactions and Third-Party Agreements (continued)**

To the extent that the Collaboratory is used for stem cell research by the Collaborating Organizations or for that purpose by any other nonprofit research organization acceptable to and approved by The Regents, The Regents will grant a ground rent credit to Sanford Consortium equal to the amount of ground rent payable by Sanford Consortium. If, however, Sanford Consortium does not occupy the entire Collaboratory for stem cell research, it may sublease any excess space first to The Regents, and then to any other tenant, for uses acceptable to and approved by The Regents ("Approved Uses"). Ground rent payable to The Regents by Sanford Consortium for subleased space for other than Approved Uses will be priced at fair market value, as determined by an appraisal.

There are no commitments for the use of space for other than Approved Uses as of December 31, 2015. Upon termination of the Ground Lease, title to the Collaboratory will pass unencumbered to The Regents. See discussion regarding Café below.

**Café** – Sanford Consortium entered into an agreement in 2013 with a third-party proprietor to operate the café at the Sanford Consortium facility; consistent with Section 5.3 of the Ground Lease, this use was endorsed by The Regents' via their authorized representative (the UC San Diego Assistant Vice Chancellor – Real Estate) and classified as an ancillary use. The term of the agreement with the third-party proprietor is through February 28, 2017. Monthly rent paid to Sanford Consortium includes a base rent of $3,500, plus an annual adjustment to the base rent on March 1 of each year for inflation, plus a percentage rent adjustment on March 1 of each year based on gross sales over the prior 12 months. Sanford Consortium recognized associated rent totaling approximately $66,000 and $56,000 during the years ended December 31, 2015 and 2014, respectively. Amounts paid by Sanford Consortium to The Regents under the Ground Lease for the use of space as a café were approximately $6,800 and $6,700 for the years ended December 31, 2015 and 2014, respectively.

**Imaging equipment** – Sanford Consortium entered into an agreement in 2013 with a third-party contract research organization to provide research services through the operation and management of imaging equipment owned by Sanford Consortium. Consistent with Section 5.2 of the Ground Lease, this service was endorsed by The Regents' via their authorized representative (the UC San Diego Vice Chancellor – Research) and classified as a significant research linkage. This agreement is for a three-year term that commenced on January 27, 2014. The agreement stipulates that Sanford Consortium will, on a quarterly basis, receive license fee payments from the third party (including royalty and equipment fee revenues) and facility fee revenues. In addition, Sanford Consortium will provide a quarterly credit of $125,000 to the third party for each of the initial four quarters of the term ending in January 2015. During the year ended December 31, 2015 and 2014, revenue recognized by Sanford Consortium was approximately $130,000 and $58,000, respectively, and expenses recorded by Sanford Consortium, for the quarterly credits were approximately $42,000 and $458,000, respectively.

**Note 8 – Bonds Payable**

In 2010, the California Infrastructure and Economic Development Bank ("iBank") issued $62,000,000 aggregate principal amount of Revenue Bonds Series 2010A ("Sanford Consortium Bonds") and lent the proceeds to Sanford Consortium, pursuant to a loan agreement for use by Sanford Consortium to construct and equip the Collaboratory and fund capitalized interest and costs of issuance expenses.

Debt service due on the Sanford Consortium Bonds will be paid from Sanford Consortium's gross revenues, including license fees and/or rent paid by Collaborating Organizations or other tenants that occupy the Collaboratory, investment income, and unrestricted gifts or grants received by Sanford Consortium.

The iBank issued the Sanford Consortium Bonds on the basis of the financial strength of that certain Debt Service Payment Agreement pursuant to which The Regents agreed, unconditionally, absolutely, and irrevocably, to pay any Debt Service Payment due on the Sanford Consortium Bonds that Sanford Consortium is unable to pay ("Debt Service Shortfall"). The Regents shall have the right to occupy any space vacated by any licensee that fails to make payment of any license fee if, and to the extent, such licensee's delinquency causes a Debt Service Shortfall.

Bonds payable are comprised of the following as of December 31:

| | 2015 | 2014 |
|---|---|---|
| Sanford Consortium Bonds issued May 27, 2010, interest payable at a variable rate, due semi-annually, beginning May 2012 through May 2040, collateralized by property and equipment and secured by that certain Debt Service Payment Agreement by and between The Regents and Sanford | $ 57,455,000 | $ 58,650,000 |
| | 57,455,000 | 58,650,000 |
| Plus unamortized premium | 1,322,697 | 1,630,806 |
| Less debt issuance costs | (709,553) | (738,643) |
| Less current portion | (1,245,000) | (1,195,000) |
| Total | $ 56,823,144 | $ 58,347,163 |

Interest was payable at an initial rate of 3 percent through 2013, increasing to 4 percent through 2019 and to 5 percent beginning in 2020.

**Note 8 – Bonds Payable (continued)**

Annual principal payments due on the Sanford Consortium Bonds are as follows:

| | | |
|---|---|---|
| Years ending December 31, | | |
| 2016 | $ | 1,245,000 |
| 2017 | | 1,290,000 |
| 2018 | | 1,345,000 |
| 2019 | | 1,400,000 |
| 2020 | | 1,460,000 |
| Thereafter | | 50,715,000 |
| Total | $ | 57,455,000 |

The fair value of the bonds is determined by analyzing discounted cash flows using interest rates being charged for debt with similar terms and credit quality, which are considered Level 2 inputs. The fair value of the bonds at December 31, 2015 is approximately $64,000,000.

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CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK • Revenue Bonds (Sanford Consortium Project) Series 2016A



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