

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 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 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is 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 Bonds. See "TAX MATTERS" herein.

\$170,980,000
CALIFORNIA INFRASTRUCTURE
AND ECONOMIC DEVELOPMENT BANK
REVENUE BONDS (UCSF 2130 THIRD STREET), SERIES 2017

Dated: Date of Delivery

Due: May 15, as shown on the inside cover

California Infrastructure and Economic Development Bank (the "Infrastructure Bank") is expected to offer \$170,980,000 aggregate principal amount of its Revenue Bonds (UCSF 2130 Third Street), Series 2017 (the "Bonds"). The proceeds of the sale of the Bonds will be used to provide funds to (i) construct a UCSF Department of Psychiatry Youth and Family Center (the "Project") in close proximity to the University of California, San Francisco's Mission Bay campus and (ii) fund capitalized interest and certain other funds and expenses authorized under the Indenture. See "ESTIMATED SOURCES AND USES OF FUNDS" herein. The Project financed by the Bonds will be owned by SKS/Prado 2130 Third, LLC, a Delaware limited liability company (the "Developer"), and will be leased to The Regents of the University of California ("The Regents"), which will occupy the Project.

The Bonds are being issued under and pursuant to the Constitution and laws of the State of California, particularly the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 and following) (as now in effect and as it may from time to time hereafter be amended or supplemented, the "Act"), and an Indenture, dated as of December 1, 2017 (the "Indenture"), between the Infrastructure Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Principal of and interest on the Bonds are payable solely, except to the extent paid out of moneys attributable to proceeds of the Bonds and from temporary investments thereof, from a pledge of moneys derived from a Loan Agreement, dated as of December 1, 2017 (the "Loan Agreement"), between the Infrastructure Bank and Campus Facilities Improvement Association, a California non-profit public benefit corporation (the "Borrower"), and from revenues absolutely assigned by the Developer under the Base Rent Assignment Agreement (as defined herein). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Borrower's obligations with respect to the Bonds are non-recourse. See "NON-RECOURSE OBLIGATION OF THE BORROWER" herein.

The Bonds are being offered on the basis of the financial strength of The Regents and its obligation to make payments of Base Rent under the Space Lease (each as defined herein), rather than on the financial strength of the Borrower or the Developer. The Space Lease provides that The Regents' obligation to make Base Rent payments under the Space Lease is unconditional, including that such rental payment obligation is not contingent upon completion or occupancy of the Project and that such obligation is not subject to abatement in the event of damage or destruction of the Project. The Regents' obligation to make payments of Base Rent under the Space Lease is an unsecured, general obligation of The Regents. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Base Rent and the Base Rent Assignment Agreement."

This cover page contains information for quick reference only. It 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.

See "INVESTMENT CONSIDERATIONS" herein for a description of certain factors that should be considered by investors in deciding whether to purchase the Bonds.

THE BONDS SHALL 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 AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR IN THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS; AND NO OWNER OR BENEFICIAL OWNER OF ANY BOND SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS BY THE INFRASTRUCTURE BANK, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

NOTWITHSTANDING ANYTHING IN THIS OFFICIAL STATEMENT CONTAINED, THE INFRASTRUCTURE BANK SHALL NOT BE REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OF INCOME OF ANY GOVERNMENTAL BODY OR POLITICAL SUBDIVISION OF THE STATE OR THE INFRASTRUCTURE BANK OTHER THAN THE REVENUES AND ADDITIONAL PAYMENTS, FOR ANY OF THE PURPOSES IN THIS OFFICIAL STATEMENT MENTIONED, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS OR FOR ANY OTHER PURPOSE OF THIS OFFICIAL STATEMENT. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE INFRASTRUCTURE BANK, AND ARE PAYABLE FROM AND SECURED ONLY BY THE REVENUES AND THE OTHER ASSETS PLEDGED FOR SUCH PAYMENT UNDER THIS OFFICIAL STATEMENT.

The Bonds will be issued as fully registered bonds without coupons in denominations of \$5,000 and any multiple thereof. The Bonds will bear interest from the Date of Delivery, payable semiannually on each May 15 and November 15, commencing May 15, 2018 (each, an "Interest Payment Date"). The Bonds will be initially registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. So long as Cede & Co. is the registered owner of the Bonds, references herein to the Owners of the Bonds shall mean Cede & Co. and will not mean the beneficial owners of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, the payment of principal of and interest on the Bonds will be made to Cede & Co., which will in turn be responsible for making such payments to its participants for subsequent disbursement to the beneficial owners. See "The Bonds" herein.

The Bonds will be subject to optional and mandatory sinking fund redemption prior to their stated maturities, as described herein.

The Bonds are offered when, as, and if received by the Underwriters, subject to the approval as to legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Infrastructure Bank. Certain legal matters will be passed upon for the Infrastructure Bank by its Senior Staff Counsel; for The Regents by its Office of General Counsel and Perkins Coie LLP, special counsel to The Regents; for the Borrower by Sheppard Mullin Richter & Hampton LLP, counsel to the Borrower; for the Developer by Pillsbury Winthrop Shaw Pittman LLP and Morrison & Foerster LLP, co-counsel to the Developer, and Berger Harris LLP, special counsel to the Developer; and for the Underwriters by O'Melveny & Myers LLP, counsel to the Underwriters. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about December 14, 2017.

Goldman Sachs & Co. LLC

Barclays

Stifel

MATURITY AND PRICING SCHEDULE

\$170,980,000

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK REVENUE BONDS (UCSF 2130 THIRD STREET), SERIES 2017

<u>Maturity (May 15)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>CUSIP⁽¹⁾</u>
2021	2,270,000	5.000	1.410	13034ATD2
2022	2,385,000	5.000	1.470	13034ATE0
2023	2,505,000	5.000	1.520	13034ATF7
2024	2,630,000	5.000	1.570	13034ATG5
2025	2,760,000	5.000	1.610	13034ATH3
2026	2,900,000	5.000	1.710	13034ATJ9
2027	3,045,000	5.000	1.780	13034ATK6
2028	3,195,000	5.000	1.850	13034ATL4
2029	3,355,000	5.000	1.910 ^c	13034ATM2
2030	3,520,000	5.000	1.980 ^c	13034ATN0
2031	3,700,000	5.000	2.070 ^c	13034ATP5
2032	3,885,000	5.000	2.130 ^c	13034ATQ3
2033	4,080,000	5.000	2.190 ^c	13034ATR1
2034	4,280,000	5.000	2.250 ^c	13034ATS9
2035	4,495,000	5.000	2.320 ^c	13034ATT7
2036	4,720,000	5.000	2.370 ^c	13034ATU4
2037	4,955,000	5.000	2.420 ^c	13034ATV2
\$28,755,000	5.000%	Term Bond due May 15, 2042	Yield: 2.510% ^c	CUSIP ⁽¹⁾ : 13034ATW0
\$36,705,000	5.000%	Term Bond due May 15, 2047	Yield: 2.560% ^c	CUSIP ⁽¹⁾ : 13034ATX8
\$46,840,000	5.000%	Term Bond due May 15, 2052	Yield: 2.660% ^c	CUSIP ⁽¹⁾ : 13034ATY6

^(c) Priced to the May 15, 2028 par call date.

⁽¹⁾ CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2017 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. 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 are provided for convenience of reference only. None of the Infrastructure Bank, the Borrower, The Regents, the Underwriters or their agents or counsel assume responsibility for the use or accuracy of such numbers.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 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.

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, the Developer 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 Borrower or The Regents 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.

THE 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 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 “ABSENCE OF MATERIAL LITIGATION – The Infrastructure Bank” has been furnished by the Infrastructure Bank, and the information set forth herein under the caption “THE BONDS – Book-Entry Only System for the 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 Borrower or The Regents. All other information set forth herein has been obtained from the Borrower, the Developer, 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 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, the Developer or DTC since the date hereof.

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

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 is 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 Regents 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 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 an entity within the Governor's Office of Business and Economic Development in the State of California (the "State"), organized and existing pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 and following) (as now in effect and as it may from time to time hereafter be amended or supplemented, the "Act"). See "THE INFRASTRUCTURE BANK" herein.
- The Project** The proceeds of the Bonds will be used to construct a UCSF Department of Psychiatry Youth and Family Center (the "Project") of approximately 170,000 gross-square-feet. The site of the Project is an approximately 34,167 square foot (0.77-acre) parcel, located at 2130 Third Street, San Francisco (the "Project Site"), which was donated and conveyed to The Regents in October 2017. Located in San Francisco's "Dogpatch" neighborhood, the Project Site is in close proximity to the University of California, San Francisco's Mission Bay campus. The Project will be developed by a private developer (see "The Developer" below) pursuant to a public/private delivery process. Construction of the Project is expected to commence in December 2017, with substantial completion expected to occur approximately 30 months after the commencement of construction. For additional information regarding the Project, see "THE PROJECT" herein.
- The Borrower** Campus Facilities Improvement Association (the "Borrower") is a California non-profit public benefit corporation. The proceeds of the Bonds will be loaned to the Borrower pursuant to a Loan Agreement, dated as of December 1, 2017 (the "Loan Agreement"), between the Infrastructure Bank and the Borrower, to be applied by the Borrower to (i) construct the Project and (ii) fund capitalized interest and certain other funds and expenses authorized under the Indenture. See "THE BORROWER" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.
- The Bonds** The Infrastructure Bank expects to issue 170,980,000 aggregate principal amount of revenue bonds to be designated "California Infrastructure and Economic Development Bank Revenue Bonds (UCSF 2130 Third Street), Series 2017" (the "Bonds") pursuant to an Indenture, dated as of December 1, 2017 (the "Indenture"), between the Infrastructure Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). See "THE BONDS" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.
- Security for the Bondholders** As security for its obligations under 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 Bonds and will be paid by the Infrastructure Bank to the Trustee. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein and APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS.”

Pursuant to the Space Lease, the Developer will lease the Project to The Regents and The Regents will be required to make Base Rent payments in an amount equal to the principal of and interest on the Bonds. The Space Lease provides that The Regents’ obligation to make Base Rent payments under the Space Lease is unconditional, including that such rental payment obligation is not contingent upon completion or occupancy of the Project and that such obligation is not subject to abatement in the event of damage or destruction of the Project. See “The Space Lease” below. Pursuant to the Base Rent Assignment Agreement, the Developer will unconditionally sell, assign and transfer, irrevocably and absolutely, without recourse for the benefit of the owners of the Bonds, all of its rights to receive the Base Rent payments made by The Regents.

The Developer

SKS/Prado 2130 Third, LLC, a Delaware limited liability company (the “Developer”), will sub-lease the Project Site from the Borrower pursuant to the Sub Ground Lease. See “The Ground Lease and the Sub Ground Lease” below. The Developer will develop the Project on the Project Site, will operate the Project during the term of the Sub Ground Lease and will in turn lease the Project to The Regents pursuant to the Space Lease and related agreements. See “The Space Lease” below. For additional information regarding the Developer, see “THE DEVELOPER” herein.

**The University
and The Regents**

The University of California (the “University”) is a public institution of higher education chartered in 1868. The University currently operates general campuses located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, Santa Barbara and Santa Cruz; and a health science campus located in San Francisco. The University also operates five academic medical centers (and UCSF Benioff Children’s Hospital Oakland, which is affiliated with the University of California, San Francisco Medical Center), 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 compliance with the terms of the endowments, 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 OF CALIFORNIA AND THE REGENTS” herein and APPENDIX A – “THE UNIVERSITY OF CALIFORNIA” and APPENDIX B – “THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-2017.”

Pursuant to the Space Lease, The Regents is obligated to pay Base Rent, the proceeds of which will be applied to repay the Bonds. See “The Space Lease” below.

UCSF	The University of California, San Francisco (“UCSF”) is a campus of the University, located in San Francisco, California. The Project will be located in close proximity to the UCSF Mission Bay campus and will be utilized by UCSF for clinical programs including an integrated center for youth, family and adult psychiatry at UCSF and research programs and faculty supporting the UCSF Department of Psychiatry. See “THE UNIVERSITY OF CALIFORNIA, SAN FRANCISCO” and “THE PROJECT” herein.
The Ground Lease and the Sub Ground Lease	Concurrently with the issuance of the Bonds, (i) The Regents, as ground lessor, will lease the Project Site to the Borrower, as ground lessee, pursuant to a Master Ground Lease (the “Ground Lease”) and (ii) the Borrower, as sub-ground lessor, will sub-lease the Project Site to the Developer, as sub-ground lessee, pursuant to a Sub Ground Lease (the “Sub Ground Lease”). See “THE GROUND LEASE AND THE SUB GROUND LEASE – The Ground Lease” and “– The Sub Ground Lease” herein.
The Space Lease	Concurrently with the issuance of the Bonds, the Developer, as landlord, will lease the Project to The Regents, tenant, pursuant to a Space Lease (the “Space Lease”). The Space Lease provides that The Regents’ obligation to make Base Rent payments under the Space Lease is unconditional, including that such rental payment obligation is not contingent upon completion or occupancy of the Project and that such obligation is not subject to abatement in the event of damage or destruction of the Project. See “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER – The Space Lease” herein.
Investment Considerations	<p>A description of certain factors that should be considered by investors in deciding whether to purchase the Bonds is included under “INVESTMENT CONSIDERATIONS” in this Official Statement. Such factors relate to the events or circumstances listed below, among others. The occurrence of one or more of the events or circumstances identified therein could materially and adversely affect payment of principal and interest on the Bonds.</p> <ul style="list-style-type: none"> — Limited Security; Non-Recourse Obligations; — Conditional Nature of Project Site Donation; — No credit facility; — Financial condition of The Regents; and — Enforceability of remedies; Effect of Bankruptcy.
Continuing Disclosure	No financial or operating data concerning the Borrower, the Developer or the Infrastructure Bank is being included or incorporated by reference in this Official Statement, and none of the Infrastructure Bank, the Developer or the Borrower has 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 Bonds to provide certain financial information and operating data relating to the Bonds not later than seven (7) months after the end of The Regents’ Fiscal Year (which Fiscal Year currently ends June 30), commencing with the report for the Fiscal Year ending June 30, 2018, and to provide notices of the occurrence of certain enumerated events. See “CONTINUING DISCLOSURE” herein and APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – CONTINUING DISCLOSURE AGREEMENT.”

Certain Information

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. Copies of this Official Statement and other relevant documents are available upon request from the Underwriters prior to the issuance and delivery of the Bonds and from the Trustee after the issuance and delivery of the Bonds. See “INTRODUCTORY STATEMENT,” “SOURCES OF INFORMATION” and “MISCELLANEOUS” herein.

OFFICIAL STATEMENT

\$170,980,000
CALIFORNIA INFRASTRUCTURE
AND ECONOMIC DEVELOPMENT BANK
REVENUE BONDS (UCSF 2130 THIRD STREET), SERIES 2017

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the appendices hereto, furnishes certain information in connection with the sale by the California Infrastructure and Economic Development Bank (the “Infrastructure Bank”) of \$170,980,000 aggregate principal amount of revenue bonds to be designated “California Infrastructure and Economic Development Bank Revenue Bonds (UCSF 2130 Third Street), Series 2017” (the “Bonds”). The Bonds will be issued by the Infrastructure Bank 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 (California Government Code Section 63000 and following) (as now in effect and as it may from time to time hereafter be amended or supplemented, the “Act”), and an Indenture, dated as of December 1, 2017 (the “Indenture”), between the Infrastructure Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

The proceeds of the sale of the Bonds will be used to provide funds to (i) construct a UCSF Department of Psychiatry Youth and Family Center (the “Project”) of approximately 170,000 gross square feet and (ii) fund capitalized interest and certain other funds and expenses authorized under the Indenture. See “ESTIMATED SOURCES AND USES OF FUNDS” herein. The site of the Project is an approximately 34,167 square foot (0.77-acre) parcel, located at 2130 Third Street, San Francisco (the “Project Site”), which was donated and conveyed to The Regents in October 2017. The Project Site is in close proximity to the Mission Bay campus of the University of California, San Francisco (“UCSF”) in San Francisco, California. See “THE PROJECT” herein.

Concurrently with the issuance of the Bonds, (i) The Regents of the University of California (“The Regents”), as ground lessor, will lease the Project Site to the Borrower, as ground lessee, pursuant to a Master Ground Lease (the “Ground Lease”); (ii) the Borrower, as sub-ground lessor, will sub-lease the Project Site to the Developer, as sub-ground lessee, pursuant to a Sub Ground Lease (the “Sub Ground Lease”); and (iii) the Developer, as lessor, will in turn lease the Project to The Regents, as lessee, pursuant to a Space Lease (the “Space Lease”). **The Space Lease provides that The Regents’ obligation to make Base Rent (as defined herein) payments under the Space Lease is unconditional, including that such rental payment obligation is not contingent upon completion or occupancy of the Project and that such obligation is not subject to abatement in the event of damage or destruction of the Project.** See “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER – The Space Lease” herein. Base Rent under the Space Lease will equal principal and interest on the Bonds, and will be absolutely assigned to the Trustee by the Developer (in accordance with its agreement with the Borrower) pursuant to the Base Rent Assignment Agreement, to be entered into by the Developer and the Trustee concurrently with the issuance of the Bonds (the “Base Rent Assignment Agreement”).

The Infrastructure Bank will lend the proceeds of the Bonds to the Borrower pursuant to a Loan Agreement, dated as of December 1, 2017 (the “Loan Agreement”), between the Infrastructure Bank and the Borrower. The Borrower is obligated pursuant to the Loan Agreement to make Loan Payments to the Infrastructure Bank in amounts calculated to be sufficient to pay the principal of and interest on the Bonds, as the same mature and become due. See “SECURITY AND SOURCES OF PAYMENT FOR THE 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 Revenues (as defined herein), and all amounts and securities in the funds held by the Trustee under the Indenture (other than the Rebate Fund).**

The obligations of the Borrower under the Loan Agreement and other Bond Documents (as defined herein) are limited obligations of the Borrower payable solely from income derived from the Space Lease and the Ground Lease and the other funds provided in the Indenture, and do not constitute general obligations of the Borrower. As a result, the Borrower’s liability is effectively limited to the income and funds described in

the Indenture with no recourse to, or lien upon, directly or indirectly, any other property of the Borrower. Any judgment in any action or proceeding will be enforceable against the Borrower only to the extent such amounts constitute income to Borrower derived from the Space Lease and the Ground Lease and the other funds provided in the Indenture. See “NON-RECOURSE OBLIGATION OF THE BORROWER” herein.

The Bonds are being offered on the basis of the financial strength of The Regents and its obligation to make payments of Base Rent under the Space Lease, rather than on the financial strength of the Borrower or the Developer. The Regents’ obligation to make payments of Base Rent is an unsecured, general obligation of The Regents. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Base Rent and the Base Rent Assignment Agreement.”

THE BONDS SHALL 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 AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR IN THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS; AND NO OWNER OR BENEFICIAL OWNER OF ANY BOND SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS BY THE INFRASTRUCTURE BANK, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

NOTWITHSTANDING ANYTHING IN THIS OFFICIAL STATEMENT CONTAINED, THE INFRASTRUCTURE BANK SHALL NOT BE REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OF INCOME OF ANY GOVERNMENTAL BODY OR POLITICAL SUBDIVISION OF THE STATE OR THE INFRASTRUCTURE BANK OTHER THAN THE REVENUES AND ADDITIONAL PAYMENTS, FOR ANY OF THE PURPOSES IN THIS OFFICIAL STATEMENT MENTIONED, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS OR FOR ANY OTHER PURPOSE OF THIS OFFICIAL STATEMENT. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE INFRASTRUCTURE BANK, AND ARE PAYABLE FROM AND SECURED ONLY BY THE REVENUES AND THE OTHER ASSETS PLEDGED FOR SUCH PAYMENT UNDER THIS OFFICIAL STATEMENT.

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 as the agent of the Trustee and will be paid by the Infrastructure Bank to the Trustee. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

Certain terms defined in the Indenture, the Loan Agreement, the Ground Lease, the Sub Ground Lease and the Space Lease 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 of California (the “University”), UCSF, the Project, the Developer, the Bonds, the Loan Agreement, the Ground Lease, the Sub Ground Lease, the Space Lease and the Indenture. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Ground Lease, the Sub Ground Lease, the Space Lease, the Base Rent Assignment 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 Bonds are qualified in their entirety to the forms thereof included in the Indenture.

THE INFRASTRUCTURE BANK

The Infrastructure Bank is an entity within the Governor's Office of Business and Economic Development in the State of California, organized and existing pursuant to the Act. The Infrastructure Bank is authorized and empowered pursuant to the Act to issue the Bonds, to loan the proceeds thereof to the Borrower, to secure the Bonds by a pledge of the amounts payable by the Borrower under the Loan Agreement and any available amounts held in the funds or accounts established pursuant to the Indenture (other than the Rebate Fund), and to enter into the Loan Agreement and the Indenture.

The Infrastructure Bank is governed by a board of directors (the "Infrastructure Bank Board") consisting of the Director of the Governor's Office of Business and Economic Development, who serves as chairperson, the Director of the State's Department of Finance, the State Treasurer, the Secretary of the State's Transportation Agency, or their respective designees, and a Governor's appointee. The business and affairs of the Infrastructure Bank are managed and conducted by its Executive Director. The Infrastructure Bank has no taxing power.

The Bonds are limited obligations of the Infrastructure Bank and are payable solely from, and secured by a pledge of and lien on, the Revenues, consisting primarily of the Loan Payments made by the Borrower under the Loan Agreement and moneys in certain funds pledged therefor (other than the Rebate Fund), as and to the extent set forth in the Indenture.

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

THE PROJECT

The proceeds of the Bonds will be used to construct a UCSF Department of Psychiatry Youth and Family Center (the "Project") of approximately 170,000 gross square feet. The site of the Project is an approximately 34,167 square foot (0.77-acre) parcel, located at 2130 Third Street, San Francisco (the "Project Site"). Located in San Francisco's "Dogpatch" neighborhood, the Project Site is in close proximity to the UCSF Mission Bay campus. The Project Site was donated and conveyed by a private donor to The Regents in October 2017. In connection with the donation, a conditional gift agreement was executed by the donor and The Regents that provided for, among other things, a condition subsequent that the Project be completed on or before fifty-four (54) months after the date the land transfer deed was recorded (which occurred on October 17, 2017). Failure to complete the Project by such date may result in the donor's election to have the land conveyed back to the donor. The Regents expects construction of the Project to commence in December 2017, with substantial completion expected to occur approximately 30 months after the commencement of construction and approximately thirty-two (32) months after the date the land transfer deed was recorded. See "INVESTMENT CONSIDERATIONS – Conditional Nature of Project Site Donation."

The Project is expected to provide a child-, family-, and adult-friendly environment for mental health services and to integrate clinical, training, and research activities, all in a location near the UCSF Mission Bay campus. The new facility also is intended to serve as a nexus for existing and new collaborations with UCSF Benioff Children's Hospital Oakland, the University of California, Berkeley, and other leading national and international healthcare institutions dedicated to advancing mental health.

The Project will be developed by a private developer (see “THE DEVELOPER”) through a public/private delivery process. The Regents selected the Developer through a competitive selection process conducted during 2015. Pursuant to that process, The Regents received eight responses to a Request for Qualifications. The three top ranked developers then received a Request for Proposals. The Regents ultimately selected the Developer to develop the Project. The Developer is responsible for selecting the contractors and subcontractors to construct the Project.

The general contractor for the Project is Hathaway Dinwiddie Construction Company, and the architect for the Project is Pfau Long Architecture and Zimmer Gunsul Frasca Architects LLP.

The Regents will ground lease the Project Site to the Borrower pursuant to the Ground Lease, and the Developer will sub-lease the Project Site from the Borrower pursuant to the Sub Ground Lease. The Developer will develop the Project on the Project Site, will operate the Project during the term of the Sub Ground Lease and will in turn lease the Project to The Regents pursuant to the Space Lease and related agreements. The Project will be conveyed to The Regents at the end of the term of the Ground Lease pursuant to the terms thereof. See “THE DEVELOPER,” “THE GROUND LEASE AND THE SUB GROUND LEASE” and “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER – The Space Lease.”

THE BORROWER

Campus Facilities Improvement Association (the “Borrower”), is a non-profit public benefit corporation organized under the laws of the State. The Borrower was organized in 2008 for the charitable and public purposes of lessening the burdens of government by facilitating the development, construction and operation of buildings and other facilities used by the University of California. The Borrower previously collaborated with The Regents in 2010 with respect to another UCSF project (known as UCSF Neurosciences Building 19A), as borrower with respect to the bonds issued to finance that project. See APPENDIX A – “THE UNIVERSITY OF CALIFORNIA – REVENUE BONDS ISSUED AND OUTSTANDING – Conduit Issuer Bonds.”

NON-RECOURSE OBLIGATION OF THE BORROWER

The Borrower will not be required to advance any moneys derived from any source of income other than the Ground Lease, the Space Lease and the other funds provided in the Loan Agreement for the payment of the Loan Payments and other amounts payable thereunder or for the performance of any other agreements or covenants required to be performed by the Borrower pursuant to the Loan Agreement. The foregoing effectively means the Infrastructure Bank (or the Trustee, as the assignee of the Infrastructure Bank) will not be able to bring any claim against the Borrower that will require it to utilize any of its funds or property other than that specifically pledged to the payment of the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Revenues” herein. Because of the limited nature of the Borrower’s obligation, only limited information is being provided herein regarding the financial assets or business affairs of the Borrower.

THE BONDS

General Description

The 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 mandatory redemption provisions. The Bonds will bear interest at the rates shown on the inside cover page of this Official Statement, payable initially on May 15, 2018, and semi-annually thereafter on each May 15 and November 15 (collectively, the “Interest Payment Dates” and each, an “Interest Payment Date”) until paid, in an amount equal to the interest accrued from the Interest Payment Date immediately preceding the date of registration and authentication of each Bond, unless such Bond is registered and authenticated as of an Interest Payment Date, in which case it will bear interest from said Interest Payment Date, or unless, as shown by the records of the Trustee, interest on the Bonds will be in default, in which event such Bond will bear

interest from the date to which interest will have been paid in full on such Bond, or unless no interest will have been paid on the Bonds, in which event such Bond will bear interest from the dated date.

Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered bonds without coupons in denominations of Five Thousand Dollars (\$5,000) and any multiple thereof (“Authorized Denominations”).

Payment of the Bonds

While DTC or its nominee is owner of the Bonds, all payments of principal of and interest on the Bonds will be paid to DTC or its nominee by wire transfer. See “Book-Entry Only System for the Bonds” below.

Book-Entry Only System for the Bonds

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

Redemption

Optional Redemption. The Bonds maturing on or before May 15, 2028 are not subject to optional redemption. The Bonds maturing on or after May 15, 2029 are subject to optional redemption prior to their respective stated maturities, as set forth in a written Request of the Borrower, as a whole or in part on any date on or after May 15, 2028, equal to the principal amount of the Bonds called for redemption plus accrued interest thereon to the date of redemption, without premium.

Mandatory Redemption from Sinking Fund Installments. The Bonds maturing on May 15, 2042, 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 the principal amount of the Bonds to be redeemed, without premium. Sinking Fund Installments for the Bonds maturing on May 15, 2042, will be due on the following dates and in the following amounts:

Sinking Fund Installment Due Date May 15	Sinking Fund Installment
2038	\$5,205,000
2039	\$5,465,000
2040	\$5,735,000
2041	\$6,025,000
2042*	\$6,325,000

* Maturity

The Bonds maturing on May 15, 2047, 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, 2043, at the principal amount of the Bonds to be redeemed, without premium. Sinking Fund Installments for the Bonds maturing on May 15, 2047, will be due on the following dates and in the following amounts:

Sinking Fund Installment Due Date May 15	Sinking Fund Installment
2043	\$6,640,000
2044	\$6,975,000
2045	\$7,325,000
2046	\$7,690,000
2047*	\$8,075,000

* Maturity

The Bonds maturing on May 15, 2052, 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, 2048, at the principal amount of the Bonds to be redeemed, without premium. Sinking Fund Installments for the Bonds maturing on May 15, 2052, will be due on the following dates and in the following amounts:

Sinking Fund Installment Due Date May 15	Sinking Fund Installment
2048	\$8,475,000
2049	\$8,900,000
2050	\$9,345,000
2051	\$9,815,000
2052*	\$10,305,000

* Maturity

In the event of an optional redemption, the Borrower will provide the Trustee with a revised Sinking Fund Installment payment schedule giving effect to the redemption so completed.

Partial Redemption.

The Bonds will be redeemed only in Authorized Denominations. Upon surrender of any Bond redeemed in part only, the Trustee will exchange the Bond redeemed for a new Bond of like tenor and in an Authorized Denomination without charge to the Owner in the principal amount of the portion of the Bond not redeemed. In the event of any partial redemption of a Bond which is registered in the name of the Nominee, DTC may elect to make a notation on the Bond certificate which reflects the date and amount of the reduction in principal amount of said Bond in lieu of surrendering the Bond certificate to the Trustee for exchange. See “Book-Entry Only System for the Bonds” above.

Notice of Redemption; Cessation of Interest.

In the event any of the Bonds are called for redemption, notice thereof identifying the Bonds or portions thereof to be redeemed will be given by the Trustee by first class mail (postage prepaid) or, if the Bonds subject to redemption are book-entry bonds, by electronic means (in accordance with the Indenture), not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to (i) the Owner of such Bond at the address shown on the Bond Register on the date such notice is mailed; (ii) the Infrastructure Bank, and (iii) as may be further required by the Continuing Disclosure Agreement; provided, however, that failure to give such notice by mailing to any owner of Bonds or any defect therein will not affect the validity of any proceedings for the redemption of any

other 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 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 Bonds to be redeemed and, if less than all, the distinctive certificate numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice will further state that the interest on the 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 Bonds the principal amount thereof to be redeemed and any unpaid interest accrued thereon to the redemption date and will require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

With respect to any notice of optional redemption of Bonds pursuant to the Indenture, unless upon the giving of such notice such 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 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 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.

If upon the expiration of sixty (60) days succeeding any redemption date, any Bonds called for redemption have not been presented to the Trustee for payment, the Trustee will, no later than ninety (90) days following such redemption date send, Notice by Mail to the Owner of each 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 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 Bonds (or portions thereof) called for redemption are being held by the Trustee, then on the redemption date designated in such notice, the 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, and from and after the redemption date, interest on the Bonds (or portions thereof) so called for redemption will cease to accrue, such Bonds will cease to be entitled to any lien, benefit or security under the Indenture, and the Owners of such 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.

Purchase of the Bonds.

The Indenture provided that, at any time prior to giving such notice of redemption, the Trustee may apply amounts in the applicable Optional Redemption Account to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) if so directed by the Borrower, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

THE BONDS SHALL 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 AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE

PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR IN THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS; AND NO OWNER OR BENEFICIAL OWNER OF ANY BOND SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS BY THE INFRASTRUCTURE BANK, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

NOTWITHSTANDING ANYTHING IN THIS OFFICIAL STATEMENT CONTAINED, THE INFRASTRUCTURE BANK SHALL NOT BE REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OF INCOME OF ANY GOVERNMENTAL BODY OR POLITICAL SUBDIVISION OF THE STATE OR THE INFRASTRUCTURE BANK OTHER THAN THE REVENUES AND ADDITIONAL PAYMENTS, FOR ANY OF THE PURPOSES IN THIS OFFICIAL STATEMENT MENTIONED, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS OR FOR ANY OTHER PURPOSE OF THIS OFFICIAL STATEMENT. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE INFRASTRUCTURE BANK, AND ARE PAYABLE FROM AND SECURED ONLY BY THE REVENUES AND THE OTHER ASSETS PLEDGED FOR SUCH PAYMENT UNDER THIS OFFICIAL STATEMENT.

Pledge of Revenues

As security for its obligations under 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 Bonds and will be paid by the Infrastructure Bank to the Trustee. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – THE INDENTURE – Pledge and Assignment; Establishment of Funds.” Revenues are defined in the Indenture as all receipts, installment payments and other income derived by the Infrastructure Bank or the Trustee 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 Operating Fund, 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, and all payments of Base Rent made by The Regents pursuant to the Space Lease.

The obligations of the Borrower under the Loan Agreement and other Bond Documents (as defined herein) are limited obligations of the Borrower payable solely from income derived from the Space Lease, the Ground Lease and the Sub Ground Lease, and the other funds provided in the Indenture and do not constitute general obligations of the Borrower. As a result, the Borrower’s liability is effectively limited to the income and funds described in the Indenture with no recourse to, or lien upon, directly or indirectly, any other property of the Borrower. Any judgment in any action or proceeding will be enforceable against the Borrower only to the extent such amounts constitute income to Borrower derived from the Space Lease, the Ground Lease and the Sub Ground Lease and the other funds provided in the Indenture. See “NON-RECOURSE OBLIGATION OF THE BORROWER” herein.

Base Rent and the Base Rent Assignment Agreement

The Regents is obligated, pursuant to the Space Lease, to make certain Base Rent payments, which moneys will be absolutely assigned to the Trustee by the Developer (in accordance with its agreement with the Borrower) and used by the Trustee for the payment of principal of and interest on the Bonds. See “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER” herein. The Bonds are being offered on the basis of the financial strength of The Regents and its obligation to make payments of Base Rent under the Space Lease, rather than on the financial strength of the Borrower or the Developer. The Space Lease provides that The Regents’ obligation to make Base Rent payments under the Space Lease is unconditional, including that

such rental payment obligation is not contingent upon completion or occupancy of the Project and that such obligation is not subject to abatement in the event of, among other things, a default by the Developer thereunder or damage or destruction of the Project.

The Regents' obligation to make Base Rent payments under the Space Lease is an unsecured, general obligation of The Regents. The 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 Bonds. In addition, the Space Lease does not contain 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 Regents and the University, see "THE UNIVERSITY OF CALIFORNIA AND THE REGENTS." For considerations related to The Regents' payment obligations under the Space Lease and related matters, see "INVESTMENT CONSIDERATIONS – Certain Risks with Respect to The Regents" and "– Conditional Nature of Project Site Donation."

Pursuant to the Base Rent Assignment Agreement, Developer, as lessor under the Space Lease, will unconditionally sell, assign and transfer to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the owners of the Bonds, all of its rights to receive the Base Rent paid by The Regents, as lessee under the Space Lease.

No Debt Service Reserve

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

No Credit Facility Securing the Bonds

The payment of the principal of and interest on the Bonds will not be supported by a credit facility or a municipal bond insurance policy. The Loan Agreement contains no covenants requiring the Borrower or The Regents to maintain any specified level of liquidity or credit rating. See "INVESTMENT CONSIDERATIONS – Enforceability of Remedies; Effect of Bankruptcy" herein. Moreover, the Borrower's obligations with respect to the Bonds are non-recourse. See "NON-RECOURSE OBLIGATION OF THE BORROWER" herein.

No Insurance or Condemnation Proceeds Pledged to Bondholders

Pursuant to the Loan Agreement and the Space Lease, the Borrower will be required to maintain or cause to be maintained certain levels of insurance with respect to the Project. However, none of the insurance or condemnation proceeds will be pledged or available under the Indenture toward repayment of the Bonds in the event of a casualty or condemnation.

THE DEVELOPER

General

SKS/Prado 2130 Third, LLC (the "Developer") is a Delaware limited liability company comprised of two members that each hold a fifty percent ownership interest in the Developer, specifically SKS 2130, LLC, a Delaware limited liability company ("SKS") and Prado 2130T LLC, a California limited liability company ("Prado"). The Developer was formed in 2016 for the sole purpose of developing and operating the Project. The Developer was selected as the developer through a competitive selection process conducted by The Regents during 2015. See "THE PROJECT."

Pursuant to the terms of the Sub Ground Lease and the Space Lease and related agreements among the parties, the Developer will design, build and hold title to the Project during the term of the Space Lease (which corresponds with the term of the Bonds and cannot be terminated prior to the repayment of the Bonds). The Developer will also operate the Project during such period. See "THE GROUND LEASE AND THE SUB

GROUND LEASE – The Sub Ground Lease” and “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER – The Space Lease.”

Developer Members

SKS is an affiliate of SKS Partners, LLC (“SKS Partners”). Founded in 1992, SKS Partners is a privately held real estate investment and development firm located in San Francisco, CA. SKS Partners develops and invests in mixed use, office, medical, biotech and light manufacturing properties mainly in the San Francisco Bay Area, and has invested in over 20 transactions in the last 20 years.

Prado is an affiliate of The Prado Group, Inc. (“Prado Group”). Prado Group is a privately held real estate investment and development company located in San Francisco, CA. Prado develops and invests in mixed-use residential, office and retail properties with a primary focus on urban infill properties. Since its inception in 2003, Prado has invested in over 60 properties in the San Francisco Bay Area.

THE UNIVERSITY OF CALIFORNIA AND THE REGENTS

The University of California (the “University”) is a public institution of higher education chartered in 1868. The University currently operates general campuses located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, Santa Barbara and Santa Cruz; and a health science campus located in San Francisco. The University also operates five academic medical centers (and UCSF Benioff Children’s Hospital Oakland, which is affiliated with the University of California, San Francisco Medical Center), 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 compliance with the terms of the endowments, 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 APPENDIX A – “THE UNIVERSITY OF CALIFORNIA.”

The audited Annual Financial Report of the University for the year ended June 30, 2017 is contained in Appendix B. The Annual Financial Report should be read in its entirety. See APPENDIX B – “THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-2017.”

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

Pursuant to the Space Lease, The Regents is obligated to make Base Rent payments, which will be absolutely assigned to the Trustee by the Developer (in accordance with its agreement with the Borrower) pursuant to the Base Rent Assignment Agreement and used by the Trustee for the payment of principal of and interest on the Bonds. See “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Base Rent and the Base Rent Assignment Agreement” herein.

THE UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

General

The University of California, San Francisco (“UCSF”) is a campus of the University, located in San Francisco, California. The development of UCSF began in 1873 with the affiliation of three colleges on thirteen acres overlooking Golden Gate Park, which is now known as the Parnassus campus. It is the only solely graduate campus in the University of California system, and is dedicated to health sciences. UCSF operates one of the top-ranked medical centers in the country. UCSF (including its medical center) had operating expenses of \$6.2 billion for

the 2016-17 Fiscal Year. As of October 2017, UCSF (including its medical center) had approximately 3,300 students, 1,500 clinical residents, and 1,000 post-doctoral scholars, and over 24,000 employees.

Research Facilities

In 1998, UCSF acquired the first parcel for its Mission Bay campus, now a 60.2 acre site in the approximately 300-acre Mission Bay Redevelopment Area between San Francisco Bay and Interstate Highway 280. Located just south of downtown San Francisco, UCSF Mission Bay campus welcomed its first scientists and scholars in 2003. Completion of the campus is forecast for 2020. To date, UCSF has constructed over 3 million square feet of space at the Mission Bay campus site, including seven research buildings, a campus community center, university housing, the Medical Center at Mission Bay comprising inpatient and outpatient facilities, and three parking structures.

ESTIMATED SOURCES AND USES OF FUNDS

The schedule below contains the estimated sources and uses of funds resulting from the sale of the Bonds:

SOURCES OF FUNDS:

Par Amount of Bonds	\$170,980,000.00
Original Issue Premium	39,002,965.00
	<hr/>
TOTAL SOURCES OF FUNDS	<u>\$209,982,965.00</u>

USES OF FUNDS:

Deposit to the Construction Fund	\$187,751,226.53
Deposit to Capitalized Interest Account ⁽¹⁾	20,683,830.56
Deposit to Issuance Cost Fund ⁽²⁾	1,547,907.91
	<hr/>
TOTAL USES OF FUNDS	<u>\$209,982,965.00</u>

⁽¹⁾ Funds deposited in the Capitalized Interest Account are calculated to be sufficient, together with certain investments earnings, to pay interest on the Bonds through May 15, 2020.

⁽²⁾ Includes underwriters' discount, legal fees, printing costs, fees of the Infrastructure Bank, the Trustee, the rating agencies and other miscellaneous Issuance Costs.

THE GROUND LEASE AND THE SUB GROUND LEASE

The Ground Lease and the Sub Ground Lease are expected to be coterminous with the Space Lease, so that at the end of the approximately 30 year terms of those leases, the real estate will be free of the encumbrances of the Ground Lease and Sub Ground Lease, and the Project will be conveyed to The Regents.

The Ground Lease

Concurrently with the issuance of the Bonds, The Regents, as ground lessor, will lease the Project Site to the Borrower, as ground lessee, pursuant to a Master Ground Lease (the "Ground Lease"), for the period commencing on the date of issuance of the Bonds and expiring on the last day of the term of the Space Lease. The Borrower is not required to pay rent to The Regents under the Ground Lease.

Events of default under the Ground Lease include, among other things, the failure of the Borrower to perform its obligations under the Ground Lease; default by the Borrower under certain other transaction documents (including the Sub Ground Lease) beyond applicable notice and cure periods; and certain bankruptcy actions being taken against the Borrower. If an event of default occurs, The Regents may (i) terminate the Ground Lease if the

Space Lease has been terminated, (ii) cause the Borrower to assign its interest in the Ground Lease and certain agreements relating to the Project (including the Sub Ground Lease and the Space Lease) to an entity of The Regents' choosing or (iii) perform any obligation of the Borrower and seek a judgment against the Borrower for damages.

The Ground Lease provides that (a) it cannot be terminated while the Space Lease remains in full force and effect and (b) upon expiration or earlier termination of the Space Lease, the Ground Lease will automatically terminate and the Borrower will surrender the Project to The Regents in its then existing condition.

The Ground Lease prohibits the Borrower from assigning, transferring, leasing, subleasing, hypothecating or otherwise encumbering its interest in the Ground Lease (except for the ground lease of the Project Site to the Developer pursuant to the Sub Ground Lease and the lease of the Project from the Developer to The Regents pursuant to the Space Lease) without the prior written consent of The Regents, which The Regents may grant or withhold in its sole and absolute discretion.

Further, the Ground Lease provides that (i) The Regents will be required to make payments of Base Rent in the amounts and at the times specified in the Space Lease, regardless of whether or not the Project is complete or available for use for any reason, including failure of the Developer to complete the development and construction of the Project, the alleged or actual invalidity of the Ground Lease, the Space Lease or any other Project document, or by virtue of any other reason or circumstance whatsoever, including, without limitation, the exercise of any right of reversion by The Regents predecessor in interest, and (ii) if any legal challenge shall be brought by any person that threatens the ability or legal authority of The Regents to make Base Rent payments pursuant to the Space Lease or otherwise would, could or might have the effect of causing a failure by the Infrastructure Bank to make any payments on or with respect to the Bonds when due, the Borrower will pay to the Trustee such amounts at such times as shall be necessary to prevent any such failure and be entitled to indemnification from The Regents.

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – GROUND LEASE” for a summary of the Ground Lease.

The Sub Ground Lease

Concurrently with the issuance of the Bonds, the Borrower, as sub-ground lessor, will sub-lease the Project Site to the Developer, as sub-ground lessee, pursuant to a Sub Ground Lease (the “Sub Ground Lease”), for the period commencing on the date of issuance of the Bonds and expiring on the earlier of (i) the last day of the term of the Space Lease or (ii) such other date that the Sub Ground Lease is sooner terminated in accordance with its terms.

Under the terms of the Sub Ground Lease, the Developer is obligated to make base ground rent payments (the “Base Ground Rent”) equal to the Base Rent payment under the Space Lease that is required to be paid by The Regents directly to the Trustee pursuant to the Base Rent Assignment Agreement, on behalf and as assignee of the Developer.

Events of default under the Sub Ground Lease include, among other things, the Developer actively preventing The Regents from paying Base Rent directly to the Trustee pursuant to the Base Rent Assignment Agreement; failure of the Developer to perform its obligations under the Sub Ground Lease; default by the Developer under certain other transaction documents (including the Space Lease) beyond applicable notice and cure periods; and certain bankruptcy actions being taken against the Developer. If an event of default occurs, the Borrower may (i) terminate the Sub Ground Lease or cause the Developer to assign all of its interests in the Sub Ground Lease and the Space Lease to the Borrower's designee (including the rights to occupy the Project and the right to collect any rents) or (ii) continue the Sub Ground Lease and pursue such remedies allowed by law. If the Developer fails to perform its obligations under the Sub Ground Lease and such failure constitutes an emergency, the Borrower has the right to perform such obligations and is entitled to recover its reasonable costs in doing so regardless of whether such failure constitutes an event of default.

Upon the termination or expiration of the Sub Ground Lease, the Developer's rights and interests in the Project terminate and the Developer is required by the Sub Ground Lease to surrender the Project to the Borrower.

The Sub Ground Lease prohibits the Developer from assigning, transferring or subleasing any of its interest in the Project Site and the improvements thereon (other than the lease of the improvements to The Regents pursuant to the Space Lease and the provisions of the Base Rent Assignment Agreement) without the prior written consent of the Borrower, which consent cannot be unreasonably withheld, but which may be subject to conditions reasonably required to protect the Borrower's interests in the various leases.

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – SUB GROUND LEASE” for a summary of the Sub Ground Lease.

THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER

The Space Lease

Concurrently with the issuance of the Bonds, the Developer, as lessor, will in turn lease the Project to The Regents, as lessee, pursuant to a Space Lease (the “Space Lease”), commencing on the date of issuance of the Bonds and expiring on the last day of the month when the last Base Rent Payment Date occurs.

Under the terms of the Space Lease, The Regents will be required to make Base Rent payments to the Developer in an amount equal to the principal of and interest on the Bonds. In addition to Base Rent payments, The Regents is obligated to pay certain other rental payments directly to the Developer. The Space Lease provides The Regents' obligation to make Base Rent payments under the Space Lease is unconditional, including that such rental payment obligation is not contingent upon completion or occupancy of the Project and that such obligation is not subject to abatement in the event of damage or destruction of the Project.

If an event of default occurs by the Developer, which defaults include, among other things, failure by the Developer to perform its obligations under the Space Lease (include failure to achieve substantial completion of the Project by April 17, 2022, as required by certain ancillary Project documents) or certain bankruptcy actions being taken against the Developer, the Space Lease does not permit The Regents to terminate the Space Lease. The Regents' remedies if an event of default occurs by the Developer under the Space Lease are to: (i) perform the Developer's obligations under the Space Lease and offset such amount against future rental payments other than Base Rent payments or (ii) require the Developer assign its interest in the Space Lease to the Borrower or its designee.

If an event of default occurs by The Regents, which defaults include failure by The Regents to perform its obligations under the Space Lease or certain bankruptcy actions being taken against The Regents, the Space Lease does not permit the Developer to terminate the Space Lease. The Developer's sole remedies under the Space Lease if an event of default occurs by The Regents are to: (i) perform The Regents' obligations under the Space Lease and seek reimbursement from The Regents for such amounts, plus an administrative fee, (ii) elect to assign its interest in the Space Lease to the Borrower and receive certain damages from The Regents and (iii) charge interest at a default rate.

The Space Lease provides that The Regents' obligation to make Base Rent payments survives any assignment of the Space Lease to the Borrower.

In the event of an uninsured casualty, and if The Regents elect not to repair or restore the Project, then the Developer, within thirty days of the casualty and with notice to The Regents and the Borrower, shall assign the rights in the Space Lease to the Borrower or Borrower's designee.

Neither The Regents nor the Developer (except to certain affiliated entities) is permitted to assign the Space Lease without the prior written consent of the other party, and of the Borrower and the Trustee.

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – SPACE LEASE” for a summary of the Space Lease.

The Base Rent Assignment Agreement

Pursuant to the Base Rent Assignment Agreement, the Developer, as lessor under the Space Lease, will unconditionally sell, assign and transfer to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the owners of the Bonds, all of its rights to receive the Base Rent paid by The Regents, as lessee under the Space Lease.

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – BASE RENT ASSIGNMENT AGREEMENT” for a summary of the Base Rent Assignment Agreement.

The Inducement Letter

Upon issuance of the Bonds, the Borrower will deliver an Inducement Letter to the Trustee and the Underwriters (the “Inducement Letter”) that will provide that if any legal challenge shall be brought by any person that threatens the ability or legal authority of The Regents to make Base Rent payments pursuant to the Space Lease or otherwise would, could or might have the effect of causing a failure by the Infrastructure Bank to make any payments on or with respect to the Bonds when due,

(1) the Borrower shall pay to the Trustee such amounts at such times as shall be necessary to prevent any such failure, and

(2) the Borrower shall provide to The Regents such notices at such times as may be required to cause The Regents to indemnify the Borrower for any amounts so paid by the Borrower pursuant to The Regents’ obligations to indemnify the Borrower pursuant to the provisions of the Operating Agreement and the Ground Lease.

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 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 2016-2017.” Investors should read APPENDIX B in its entirety. The following is intended only as a summary of certain risk factors attendant to an investment in the Bonds. Inclusion of certain factors below is not intended to signify that there are not other investment considerations or risks attendant to the Bonds that are as material to an investment decision with respect to the Bonds that are otherwise described or referred to elsewhere herein.

Limited Security; Non-Recourse Obligations

THE BONDS SHALL 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 AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR IN THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS; AND NO OWNER OR BENEFICIAL OWNER OF ANY BOND SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS BY THE INFRASTRUCTURE BANK, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL

SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

NOTWITHSTANDING ANYTHING IN THIS OFFICIAL STATEMENT CONTAINED, THE INFRASTRUCTURE BANK SHALL NOT BE REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OF INCOME OF ANY GOVERNMENTAL BODY OR POLITICAL SUBDIVISION OF THE STATE OR THE INFRASTRUCTURE BANK OTHER THAN THE REVENUES AND ADDITIONAL PAYMENTS, FOR ANY OF THE PURPOSES IN THIS OFFICIAL STATEMENT MENTIONED, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS OR FOR ANY OTHER PURPOSE OF THIS OFFICIAL STATEMENT. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE INFRASTRUCTURE BANK, AND ARE PAYABLE FROM AND SECURED ONLY BY THE REVENUES AND THE OTHER ASSETS PLEDGED FOR SUCH PAYMENT UNDER THIS OFFICIAL STATEMENT.

The Borrower's obligations with respect to the Bonds are non-recourse. See "NON-RECOURSE OBLIGATION OF THE BORROWER" herein.

Certain Risks with Respect to The Regents

Payments of the Base Rent under the Space Lease will constitute the security for the payment of the principal of and interest on the Bonds. Payment of such amounts will be dependent upon the financial condition of The Regents. For information related to The Regents, see "THE UNIVERSITY OF CALIFORNIA AND THE REGENTS," APPENDIX A – "THE UNIVERSITY OF CALIFORNIA" and APPENDIX B – "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-2017." The Regents' financial information should be reviewed and carefully considered by prospective purchasers of the Bonds as the principal source for repayment of the Bonds.

No assurance can be given that payment in full of the debt service on the Bonds will be made if The Regents fails to make the required payment under the Space Lease. If The Regents fails to make the required payments, such failure will have a material adverse effect on payment of principal and interest on the Bonds.

Conditional Nature of Project Site Donation

The Project Site was donated and conveyed by a private donor to The Regents in October 2017. In connection with the donation, a conditional gift agreement was executed by the donor and The Regents that provided for, among other things, a condition subsequent that the Project be completed on or before fifty-four (54) months after the date the land transfer deed was recorded (which occurred on October 17, 2017). Failure to complete the Project by such date, which is April 17, 2022, could result in the donor's election to have the Project Site conveyed back to the donor.

The Regents expects construction of the Project to commence in December 2017, with substantial completion expected to occur approximately 30 months after the commencement of construction (i.e., approximately thirty-two (32) months after the date the land transfer deed was recorded). Failure of the Developer to achieve substantial completion of the Project by April 17, 2022 could result in a Developer default under the Space Lease (such outside completion date is established by certain of the ancillary Project documents and would result in a cross-default under the Space Lease).

Notwithstanding the foregoing, the Space Lease provides that The Regents' obligation to make Base Rent payments under the Space Lease is unconditional, including that such rental payment obligation is not contingent upon completion or occupancy of the Project and that such obligation is not subject to abatement in the event of, among other things, a default by the Developer under the Space Lease. The Space Lease also does not permit The Regents to terminate the Space Lease due to a default by the Developer. See "THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER – The Space Lease" herein. Further, the Ground Lease provides that (i) The Regents will be required to make payments of Base Rent in the amounts and at the times specified in the Space Lease, regardless of whether or not the Project is complete or available for use for any reason, including failure of the Developer to complete the development and construction of the Project, the alleged or actual invalidity of the Ground Lease, the Space Lease or any other Project document, or by virtue of any

other reason or circumstance whatsoever, including, without limitation, the exercise of any right of reversion by The Regents predecessor in interest, and (ii) if any legal challenge shall be brought by any person that threatens the ability or legal authority of The Regents to make Base Rent payments pursuant to the Space Lease or otherwise would, could or might have the effect of causing a failure by the Infrastructure Bank to make any payments on or with respect to the Bonds when due, the Borrower will pay to the Trustee such amounts at such times as shall be necessary to prevent any such failure and be entitled to indemnification from The Regents. See “THE GROUND LEASE AND THE SUB GROUND LEASE – The Ground Lease” and “– The Sub Ground Lease.” See also “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER – The Inducement Letter.” Although no assurance can be given that a reversion of the Project Site to the donor would not result in disputes with the Developer, the Donor or other third-parties, disrupt the Project or have other adverse effects, The Regents believes that its obligation and its ability to make Base Rent payments would not be materially and adversely affected by such circumstances in light of, among other things, the provisions of the Ground Lease and the Space Lease described above.

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, the Ground Lease, the Sub Ground Lease, or the Space Lease 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 Bonds will be qualified as to the enforceability of the Bond Documents 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.

The Bonds are not secured by any legal or equitable pledge of, or mortgage on or other security interest in any real or personal property or fixtures, including any facilities or assets of the Borrower, the Developer or The Regents. In the event of a bankruptcy by any of the Borrower, the Developer or The Regents, no assurance can be given that any claim under the Bond Documents or the respective Bonds will be allowed or that any recovery on any such claim will be permitted under the Federal Bankruptcy Code.

Moreover, this transaction is structured as a multi-lease transaction between, among others, The Regents and the Borrower (the Ground Lease), the Borrower and the Developer (the Sub Ground Lease), the Developer and The Regents (the Space Lease) and the Developer and the Trustee (the Base Rent Assignment Agreement). In the event of a bankruptcy by any of the Borrower, the Developer or The Regents, the leases or the assignment agreement will be subject to the review of the Bankruptcy Court and one or more of the leases or the assignment agreement may be subject to re-characterization as a financing arrangement. In bankruptcy, if a lease is characterized by the Bankruptcy Court as a true lease agreement, a debtor may choose to assume or reject it (the debtor cannot unilaterally alter the agreement). If a lease is rejected by the debtor, the other party to the lease may receive a claim for damages, which for a landlord are capped by provisions of the Federal Bankruptcy Code. In any event, the damage claim will be subject to the normal partial payment of all claims in bankruptcy. A non-debtor tenant may also elect to retain a limited right to occupy the leased premises. If, however, the Bankruptcy Court concludes the arrangement is in fact a financing (not a true lease arrangement), the obligations are subject to full adjustment in bankruptcy, including potential re-amortization, alteration of interest rates, and/or satisfaction by reduced payment. In either context, the rights of the Bondholders to receive timely payment of principal of and interest on the Bonds may be adversely affected and no assurances can be made that Bondholders will be paid in full. In addition, if the owners of the Developer were to go into bankruptcy, the Developer could become a part of that bankruptcy, with the possible consequences discussed above.

Tax-Exempt Status of the Bonds

THE BONDS ARE NOT SUBJECT TO MANDATORY REDEMPTION AND THE RESPECTIVE RATES OF INTEREST ON THE BONDS ARE NOT SUBJECT TO ADJUSTMENT, IF THE INTEREST ON THE 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.”

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States and a requirement that issuers file an information return with the Internal Revenue Service (the “IRS”). The Infrastructure Bank and the Borrower have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure by the Borrower to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of original issuance of the Bonds.

The IRS Tax Exempt and Government Entities Division has a subdivision that is specifically devoted to tax-exempt bond compliance and that has been active in auditing tax-exempt bond transactions such as the Bonds. The Borrower has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. See “TAX MATTERS” herein.

Tax Cuts and Jobs Act

Legislation has been introduced in Congress which, if enacted, would significantly change the income tax rates for individuals and corporations and would repeal the alternative minimum tax for tax years beginning after December 31, 2017. Such legislation, if enacted, would also make changes to the federal tax law relating to certain tax-exempt bonds but, as currently drafted and except as described herein, would not directly impact the exclusion from gross income of interest on the Bonds for federal income tax purposes. As described in “TAX MATTERS” herein, the introduction or enactment of legislative proposals or clarification of the Code or court decisions (i) may cause interest on the 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 beneficial owners from realizing the full current benefit of the tax status of such interest and (ii) may affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the 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.

In addition, legislation has been introduced in Congress which, if enacted, could impose additional tax liabilities on entities like the Borrower and The Regents. It cannot be predicted whether or in what form any legislation might be enacted, or if enacted, such legislation’s ultimate impact on the finances of the Borrower and The Regents. The Regents have agreed to indemnify the Borrower for any additional tax liabilities relating to the Bonds or the Project.

ABSENCE OF MATERIAL LITIGATION

The Infrastructure Bank

There is not now pending (as to which the Infrastructure Bank has received service of process) or, to the actual knowledge of the Infrastructure Bank, threatened, any litigation against the Infrastructure Bank restraining or enjoining the issuance or delivery of the Bonds or contesting the validity of the Bonds or the proceedings or authority under which the Bonds are to be issued. None of the creation, organization nor existence of the Infrastructure Bank nor the title of any of the present members or other officers of the Infrastructure Bank to their respective offices is being contested. There is no litigation against the Infrastructure Bank pending (as to which the Infrastructure Bank

has received service of process) or, to the actual knowledge of the Infrastructure Bank, threatened, which contests the right of the Infrastructure Bank to enter into the Indenture, the Loan Agreement or the Bond Purchase Agreement or to secure the Bonds in the manner provided by the Act and as provided in the Indenture and in the resolution of the Infrastructure Bank approving the issuance of the Bonds.

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 right of the Borrower to enter into or perform its obligations under the Indenture, the Loan Agreement, the Bond Purchase Agreement, the Ground Lease, the Sub Ground Lease or the Inducement Letter or that individually or in the aggregate would adversely affect the operations of the Borrower, financial or otherwise.

The Developer

There is no litigation now pending or threatened against the Developer, of which the Developer has knowledge, that in any manner questions the right of the Developer to enter into or perform its obligations under the Sub Ground Lease, the Space Lease, the Base Rent Assignment Agreement or any development documents to which it is a party or that individually or in the aggregate would adversely affect the operations of the Developer, financial or otherwise.

The Regents

There is no litigation of any nature pending or, to the knowledge of The Regents, threatened, against The Regents to restrain or enjoin issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or the security thereof.

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

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 certain representations and compliance with certain covenants, interest on the 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 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. As discussed further below, legislation has been introduced which, if enacted, would repeal the alternative minimum tax for tax years beginning after December 31, 2017. 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 Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the 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 Bonds accrues daily over the

term to maturity of such 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 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial 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 income tax purposes of interest on obligations such as the Bonds. The Infrastructure Bank and the Borrower have made certain representations and has covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 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 Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the 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), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the 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.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a beneficial owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial 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, or clarification of the Code or court decisions may cause interest on the 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 beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation has been introduced in Congress which, if enacted, would significantly change the income tax rates for individuals and corporations and would repeal the alternative minimum tax for tax years beginning after December 31, 2017. 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 Bonds. Prospective purchasers of the 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 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of The Infrastructure Bank or 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.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. Bond Counsel is not obligated to defend the Infrastructure Bank, the Borrower or the beneficial owners regarding the tax-exempt status of the 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 beneficial 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 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 Bonds, and may cause The Infrastructure Bank, the Borrower or the beneficial owners to incur significant expense.

MUNICIPAL ADVISOR

PFM Financial Advisors LLC, is serving as Municipal Advisor to UCSF in connection with the sale of the Bonds.

Swap Financial Group, LLC, is serving as Municipal Advisor to The Regents in connection with the sale of the Bonds.

UNDERWRITING

The Infrastructure Bank is offering the Bonds through Goldman Sachs & Co. LLC (the “Representative”), as representative of the underwriters listed on the cover of this Official Statement (the “Underwriters”), pursuant to a bond purchase agreement (the “Bond Purchase Agreement”) among the Infrastructure Bank, the Borrower and the Representative, relating to the Bonds. The Underwriters have agreed to purchase the Bonds at a purchase price of \$209,338,007.09 (representing the aggregate principal amount of the Bonds, plus an original issue premium of \$39,002,965.00, less an underwriters’ discount of \$644,957.91). The public offering prices of the Bonds may be changed from time to time by the Underwriters. The Bond Purchase Agreement provides that the Underwriters will purchase all the Bonds if any are purchased and that the obligations to make such purchases are subject to certain terms and conditions set forth in the Bond Purchase Agreement including, among other things, the approval of certain legal matters by their counsel.

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,” “forecast,” “projection” or other similar words.

THE ACHIEVEMENT OF CERTAIN 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. THE BORROWER DOES NOT 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, a division of Standard & Poor's Financial Services LLC ("S&P") have assigned their municipal bond ratings of "Aa3" and "AA," respectively, to the 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. There is no assurance that such ratings will continue for any given period of time or that such ratings will not 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 may have an adverse effect on the market price or marketability of the Bonds.

LEGAL MATTERS

Legal matters incidental to the authorization and issuance of the Bonds are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Infrastructure Bank, the form of which is included as 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 Bonds are delivered, for services rendered in connection with the issuance of the Bonds, are contingent upon the sale and delivery of the Bonds.

Certain legal matters will be passed upon for the Infrastructure Bank by its Senior Staff Counsel; for The Regents by its Office of General Counsel and Perkins Coie LLP, special counsel to The Regents; for the Borrower by Sheppard Mullin Richter & Hampton LLP, counsel to the Borrower; for the Developer by Pillsbury Winthrop Shaw Pittman LLP and Morrison & Foerster LLP, co-counsel to the Developer, and Berger Harris LLP, special counsel to the Developer; and for the Underwriters by O'Melveny & Myers LLP, counsel to the Underwriters.

CONTINUING DISCLOSURE

No financial or operating data concerning the Borrower, the Developer or the Infrastructure Bank is being included or incorporated by reference in this Official Statement, and none of the Infrastructure Bank, the Developer or the Borrower has 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 Bonds to provide certain financial information and operating data relating to the Bonds (the "Annual Report") not later than seven (7) months after the end of The Regents' Fiscal Year (which Fiscal Year currently ends June 30), commencing with the report for the Fiscal Year ending June 30, 2018, and to provide notices of the occurrence of certain enumerated significant events. The Annual Report and the notices of significant 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 significant events is summarized in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

SOURCES OF INFORMATION

Information about UCSF, the University, the Project and The Regents in this Official Statement has been obtained from The Regents. Additional information regarding UCSF, the University and The Regents is available at www.ucsf.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 "ABSENCE OF MATERIAL 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 “ABSENCE OF MATERIAL LITIGATION – The Infrastructure Bank.”

Information about the Developer and its members included in this Official Statement has been obtained from the Developer.

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.

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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 2,390,000 higher education degrees, as of June 30, 2016. 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 UCSF Benioff Children’s Hospital Oakland, which is affiliated with the University of California, San Francisco Medical Center) with a total of 3,912 licensed beds and 3,584 available beds as of June 30, 2017.

The University has a pre-eminent regular teaching faculty of approximately 10,900 members as of April 2017. 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 70 National Medals of Science since Congress created the award in 1959. Since the first MacArthur Fellowships were bestowed in 1981, approximately 86 faculty members, researchers, artists and others affiliated with the University have been awarded

these prestigious grants. University faculty have also received 1,669 Guggenheim fellowships in recognition of exceptional creative ability in the arts.

As of April 2017, in addition to the teaching faculty, the University employed, on a full-time and part-time basis, approximately 56,000 other academic personnel and approximately 156,000 staff and management personnel.

During the year ended June 30, 2017, the University provided instruction to approximately 264,000 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 2013 to 2017. 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 2013 TO 2017**

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Berkeley	36,383	36,755	38,151	37,926	38,596
Davis	32,566	33,005	34,183	34,549	35,683
Irvine	28,802	30,432	31,549	31,714	33,836
Los Angeles	40,207	40,967	41,352	41,483	42,730
Merced	5,939	5,931	6,413	6,850	7,440
Riverside	20,338	20,501	20,930	21,122	22,376
San Diego	29,622	30,560	31,602	33,768	35,652
San Francisco	4,451	4,259	4,309	4,514	4,516
Santa Barbara	22,326	22,635	23,332	23,549	24,305
Santa Cruz	17,522	17,201	17,966	18,014	18,823
Total University	238,156	242,246	249,787	253,489	263,957

⁽¹⁾ Does not include students in self-supporting programs. Includes undergraduate, graduate and health sciences students, and summer enrollment (summer enrollment in 2016-17 was 15,954).

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 2017 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 October 31, 2017.

REVENUE BONDS ISSUED AND OUTSTANDING⁽¹⁾ As of October 31, 2017 (dollars in thousands)

<u>General Revenue Bonds</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2008 Series N	\$ 3,990	\$ 615
2009 Series O	732,630	16,540
2009 Series Q	300,620	5,670
2009 Series R	1,022,275	1,022,275
2010 Series S	75,395	40,410
2010 Series T	10,100	9,100
2010 Series U	144,025	94,600
2011 Series W	3,725	2,360
2010 Series X	48,700	48,700
2011 Series Z ⁽²⁾	150,000	150,000
2011 Series AB	354,875	268,895
2011 Series AC	44,840	32,315
2012 Series AD	860,000	860,000
2012 Series AE	2,385	1,240
2013 Series AF	805,905	628,985
2013 Series AG	501,170	420,835
2013 Series AH	286,515	286,515
2013 Series AI	546,235	546,235
2013 Series AJ	712,315	587,445
2013 Series AK ⁽³⁾	600,000	600,000
2013 Series AL ⁽²⁾	600,000	600,000
2014 Series AM	559,150	558,615
2014 Series AN	411,210	367,090
2015 Series AO	797,020	746,125
2015 Series AP	381,785	375,405
2015 Series AQ	500,000	500,000
2016 Series AR	410,255	409,865
2016 Series AS	182,330	173,765
2016 Series AT ⁽³⁾	132,300	132,300
2016 Series AU	88,200	88,200
2017 Series AV	449,685	449,685
2017 Series AW	185,915	185,915
2017 Series AX	<u>500,000</u>	<u>500,000</u>
SUBTOTAL	\$ 12,403,550	\$ 10,709,700

Limited Project Revenue

Bonds

2010 Series E	\$ 195,675	\$ 124,525
2010 Series F	486,130	486,130
2012 Series G	899,275	861,405
2012 Series H	100,420	100,420
2015 Series I	1,235,030	1,176,205
2015 Series J	436,455	434,205
2016 Series K	434,165	427,340
2016 Series L	97,905	92,400
2017 Series M	733,450	733,450
2017 Series N	<u>126,935</u>	<u>126,935</u>

SUBTOTAL \$ 4,745,440 \$ 4,563,015

Medical Center Pooled

Revenue Bonds

2007 Series B ⁽⁴⁾	\$ 96,155	\$ 67,540
2007 Series C-2 ⁽⁴⁾	189,775	149,025
2009 Series F	429,150	429,150
2010 Series G	48,140	17,880
2010 Series H	700,000	700,000
2010 Series I	9,175	5,710
2013 Series J	618,630	599,770
2013 Series K ⁽⁴⁾	31,300	31,300
2016 Series L	872,795	845,400
2016 Series M	<u>173,360</u>	<u>165,385</u>

SUBTOTAL \$ 3,168,480 \$ 3,011,160

Total \$20,317,470 \$18,283,875

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

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

(3) 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 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.

(4) 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 B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-2017—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 October 31, 2017, approximately \$825,438,000 of commercial paper was outstanding. Commercial paper is secured by a pledge of certain revenues that is subordinate to the pledge securing General Revenue Bonds.

Bank Loans and Credit Agreements. The Regents has entered into loan agreements, including revolving credit agreements, with various financial institutions. As of October 31, 2017, 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 \$220,000,000 (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. In addition to the 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 October 31, 2017) 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 revenue bonds in the aggregate principal amount of \$62,000,000 to finance the costs of a stem cell research facility for a consortium of institutions conducting stem cell research, including the San Diego campus. These bonds were subsequently refunded in their entirety by revenue bonds, and \$53,310,000 is outstanding as of October 31, 2017. Through a debt service payment agreement, The Regents is required to pay any debt service shortfall on these bonds.

The California Statewide Communities Development Authority ("CSCDA") has issued bonds to finance and refinance the costs of certain student housing projects for the Irvine campus, such bonds which are outstanding in the aggregate principal amount of \$510,785,000 as of October 31, 2017. 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 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 October 31, 2017 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 October 31, 2017, there were no 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:	Eloy Ortiz Oakley
Maria Anguiano	Lark Park
Richard C. Blum	Norman J. Pattiz
William De La Peña, M.D.	John A. Pérez
Gareth Elliott	Bonnie Reiss
Howard “Peter” Guber	Richard Sherman
George Kieffer	Ellen Tauscher
Sherry L. Lansing	Bruce D. Varner
Monica C. Lozano ⁽¹⁾	Charlene Zettel
Hadi Makarechian	Paul Monge ⁽²⁾

⁽¹⁾ Ms. Lozano has announced her resignation effective November 30, 2017.

⁽²⁾ 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

J. Alberto Lemus
Alumni Regent
(Vice President of the
Alumni Associations of the
University of California)

Francesco Mancina
Alumni Regent
(President of the
Alumni Associations of the
University of California)

Board Leadership:

President
Jerry Brown
Governor of California

Chair
George Kieffer

Vice Chair
John A. Pérez

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
Alexander Bustamente

FINANCIAL INFORMATION

Financial information for the University is set forth in the University’s Annual Financial Report for the fiscal year ended June 30, 2017. See “APPENDIX B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-2017.”

INVESTMENTS

As of September 30, 2017, the market values and investment returns for the fiscal year to date were as follows:

	Market Value (in 000’s)	Investment Return
Short Term Investment Pool ⁽¹⁾	\$13,674,754	0.35%
Total Return Investment Pool	9,019,263	2.49%
General Endowment Pool ⁽²⁾	10,979,805	3.06%
University of California Retirement Plan ⁽³⁾	64,209,923	3.57%

(1) Includes: (a) approximately \$2.9 billion internal receivable from campuses and medical centers for funds transferred to the Retirement Plan, (b) approximately \$2.8 billion held on behalf of the Retirement Plan, (c) approximately \$907.9 million held on behalf of the General Endowment Pool, (d) approximately \$208.5 million held on behalf of the UC Retirement Savings Program, and (e) approximately \$417.9 million receivable from certain eligible University employees who have received loans under the University’s Mortgage Origination Program.

(2) Includes approximately \$907.9 million invested in the Short Term Investment Pool.

(3) Includes approximately \$2.8 billion invested in the Short Term Investment Pool.

Source: UCOP

For additional information concerning the investments of the University, see “APPENDIX B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-2017—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 Base Rent Payments under the Space Lease when due.

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’s Office 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 2013-14 through Fiscal Year 2017-18.

STATE APPROPRIATIONS

Fiscal Year	State Appropriations To University⁽¹⁾
2013-14	\$2.844 billion ⁽²⁾
2014-15	2.991 billion ⁽³⁾
2015-16	3.163 billion ⁽⁴⁾
2016-17	3.370 billion ⁽⁵⁾
2017-18	3.418 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⁾ Includes budget augmentations of \$125.1 million for a 5% base budget adjustment, \$125 million for a deferred 2012-13 tuition and fee buyout, \$6.4 million for increase in annuitant health benefit costs, and \$10.2 million for increase in lease revenue bond debt service. Of the amount shown, \$200.4 million was used for general obligation bond debt service.

⁽³⁾ Includes budget augmentations of \$142.2 million for a 5% base budget adjustment and \$4 million in one-time funds for various programs across the University. Of the amount shown, \$193.2 million was used for general obligation bond debt service.

⁽⁴⁾ Includes 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 for certain labor centers. Also includes \$25 million in one-time funds for deferred maintenance and \$2.855 million in one-time funds for various programs across the University. Of the amount shown, \$203.7 million was used for general obligation bond debt service.

⁽⁵⁾ Includes budget augmentations of \$143.9 million comprised of \$125.4 million for a 4% base budget adjustment and \$18.5 million associated with the enrollment of 2,500 additional undergraduate resident students above 2016-17 levels by 2017-18. Also includes \$35 million in one-time funds for deferred maintenance, as well as other one-time funds totaling approximately \$55.6 million for various programs across the University. Of the amount shown, \$220.8 million was used for general obligation bond debt service.

⁽⁶⁾ Includes a 4% base budget adjustment of \$131.3 million and one-time funds of \$6.9 million for various programs across the University. Of the amount shown, \$296.4 million and \$52.4 million will be used to fund the University of California Office of the President and UC Path, respectively, and \$176.5 million will be used for general obligation debt service.

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 \$3.163 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. Of the amount shown, \$203.7 million was used for general obligation bond debt service. 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 \$2.855 million for various programs across the University.

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 in 2015-16, \$171 million in 2016-17, and \$169 million in 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 and Assembly Bill 1602 on June 27, 2016. State funds allocated to the University totaled \$3.370 billion, which included 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 \$18.5 million augmentation to the University base budget, to be funded on an ongoing basis starting in 2016-17, if the University met two conditions by May 1, 2017. First, the University had to have demonstrated that it would enroll 2,500 more resident undergraduates in academic year 2017-18 than it enrolled in 2016-17. Second, the University had to have demonstrated that it would adopt a policy that specifies a limit on the number of nonresident students enrolled. Both conditions were met.

The \$3.370 billion State General Fund allocation provides \$220.8 million for general obligation bond debt service and one-time State General Fund support in the amount of \$35 million for funding for deferred maintenance for campus buildings and infrastructure, as well as other one-time State General Fund support totaling approximately \$55.6 million for various programs across the University. The allocation also included \$18.5 million in permanent funding for enrollment growth, contingent upon the requirements listed above. In addition to the State General Fund support appropriation of \$3.370 billion, the 2016-17 State Budget Act also included a second allocation of Proposition 2 funds in the amount of \$171 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."

State Budget for the University for 2017-18. The Governor signed the 2017-18 State Budget Act on June 27, 2017. State funds allocated to the University total \$3.418 billion, which includes a 4% base budget increase of approximately \$131.3 million. This funding includes \$18.5 million in permanent funding for enrollment growth as discussed above under "State Budget for the University for 2016-17" and \$5 million to support enrollment growth of 500 graduate students in 2017-18. The 2017-18 State Budget Act includes an expectation that the University will enroll at least 1,500 more resident undergraduate students in 2018-19 compared to 2017-18. The 2017-18 State Budget Act acknowledges that the State and University should share the cost of enrollment growth. As part of that cost-sharing, the 2017-18 State Budget Act requests that the University, the Legislature, and the Department of Finance identify funds to support enrollment growth from funds that the University currently expends on systemwide programs or at the University of California Office of the President. The 2017-18 State Budget

Act also replaces \$50 million of State General Fund support with \$50 million of revenue from the Tobacco Tax Act of 2016 (Proposition 56) to be used for graduate medical education.

In addition, the State General Fund allocation includes \$176.5 million for general obligation bond debt service and one-time State General Fund support in the amount of \$6.9 million for various programs across the University. The 2017-18 State Budget Act also includes the third and final increment of Proposition 2 funds in the amount of \$169 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.”

The 2017-18 State Budget Act conditions \$50 million of the University’s State General Fund appropriation upon the University demonstrating to the Department of Finance that it has made a good faith effort to satisfy several conditions, which generally relate to certain academic and budgeting programs and policies. The conditions include the University implementing the recommendations identified by the California State Auditor to be completed by April 2018 in its report on the University of California Office of the President’s budget and administrative expenditures, which was released in April 2017, by April 1, 2018. The University has accepted and begun implementing the recommendations, which are largely about transparency and best practices.

Finally, the 2017-18 State Budget Act creates two separate line-item appropriations from the \$3.418 billion of \$296.4 million and \$52.4 million to fund the University of California Office of the President and UC Path, a systemwide human resources and payroll system, respectively, which otherwise would have been funded through campus assessments.

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 74,000 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 as of April 2017 and the expiration dates of the applicable current labor contracts as of October 31, 2017:

**University of California
Systemwide Employee Organizations⁽¹⁾**

Union	Bargaining Unit	Head Count	Contract Expiration
International Brotherhood of Teamsters 2010	CX - Clerical & Allied Services	11,475	3/31/22
UAPD Union of American Physicians & Dentists	DX –Student Health Center Physicians and Dentists	130	6/30/19
AFSCME American Federation of State, County and Municipal Employees, AFL-CIO Local 3299	EX - Patient Care Technical	15,236	12/31/17 ⁽²⁾
UPTE University Professional & Technical Employees, CWA, Local 9119	HX - Residual Health Care Professionals	4,360	10/31/17 ⁽²⁾
UC-AFT American Federation of Teachers	IX – Non Senate Instructional	3,639	1/31/20
UC – AFT American Federation of Teachers	LX – Professional Librarians	352	9/30/18
CNA California Nurses Association	NX – Registered Nurses	14,180	8/31/17 ⁽²⁾
FUPOA Federated University Police Officers Association	PA – Police Officers	270	12/31/20
UAW Local 5810 International Union, United Automobile, Aerospace and Agricultural Implement Workers of America	PX – Post Doctoral Scholars	6,130	9/30/20
UPTE University Professional & Technical Employees, CWA, Local 9119	RX – Research Support Professionals	4,928	9/30/17 ⁽²⁾
AFSCME American Federation of State, County and Municipal Employees, AFL-CIO Local 3299	SX – Service	9,444	6/30/17 ⁽²⁾
UPTE University Professional & Technical Employees, CWA, Local 9119	TX – Technical	3,455	9/30/17 ⁽²⁾

⁽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 Office 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 Base Rent payments under the Space Lease when due.

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, 2013 through July 1, 2017:

RETIREMENT PLAN MEMBERSHIP

<u>July 1</u>	<u>Active Vested Members</u>	<u>Active Nonvested Members</u>	<u>Terminated Vested Members⁽¹⁾</u>	<u>Retired Members</u>	<u>Ratio of Retirees to Actives</u>
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
2016	75,298	53,215	81,595	70,077	0.55
2017	76,064	53,318	87,052	72,995	0.56

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 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 \$118,775 for applicable State employees with Social Security and \$142,530 for applicable State employees without Social Security). All University employees who are newly hired or become pension eligible on or after July 1, 2016 are offered a choice between two retirement benefit programs, participating in the Retirement Plan ("Pension Choice") or the defined contribution plan ("Savings Choice"). Under Pension Choice, University employees without prior University service receive benefits under the Retirement Plan based on pension eligible earnings up to the PEPR Cap. In addition, the University contributes 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 \$270,000). For non-eligible faculty and staff subject to the PEPR Cap, the University contributes an additional 3.0% to the supplemental defined contribution plan for pension eligible earnings between the PEPR Cap up to the above referenced IRS limit. Under Savings Choice, new employees are eligible for a defined contribution plan for any pension eligible earnings up to such IRS limit, with the University contribution rate to the defined contribution plan set at 8.0% for all employees (whether they are faculty or staff). 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, 2017, 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 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.

⁽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.

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, 2017 and 2016 actuarial valuation was \$10.4 and \$11.1 billion, respectively, or 83.6% and 81.4% funded, respectively, on an actuarial value of assets basis. This increase in funded ratio is mainly a result of the contributions funding the total funding policy contribution as well as the investment gain on the actuarial value of assets.

The total funding policy contributions related to campuses and medical centers in the July 1, 2015 actuarial valuation (effective for Fiscal Year 2016-17) and the July 1, 2014 actuarial valuation (effective for Fiscal Year 2015-16) was \$2.8 billion and \$2.7 billion, respectively. In Fiscal Year 2016-17, University contributions were approximately \$2.2 billion and member contributions were approximately \$0.9 billion for the campuses and medical centers. In Fiscal Year 2015-16, University contributions were approximately \$2.1 billion and member contributions were approximately \$0.8 billion. The total funding policy contributions in the July 1, 2016 and July 1, 2015 actuarial valuations represent 28.0% and 28.4% 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 in the campus and medical center

segment.¹ The Regents has approved increasing the employer contribution rate to 15.0% across all members effective July 1, 2018.² 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, \$171 million in 2016-17, and \$169 million in 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 \$563.5 million were transferred to the Retirement Plan from the University's Short Term Investment Pool on December 1, 2015. Contributions of \$481 million were transferred to the Retirement Plan from the University's Short Term Investment Pool between July 1, 2016 and December 1, 2016. Contributions of \$261.2 million were transferred to the Retirement Plan from the University's Short Term Investment Pool between July 1, 2017 and November 1, 2017, and The Regents expects to transfer \$130.6 million between November 1, 2017 and January 1, 2018. In July 2017, The Regents authorized additional contributions up to \$500 million in Fiscal Year 2018-19, \$500 million in Fiscal Year 2019-20, \$600 million in Fiscal Year 2020-21, and \$700 million in Fiscal Year 2021-22 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 of liquid fixed income investments in the Short Term Investment Pool and Total Return Investment Pool of \$5 billion.

⁽¹⁾ To continue to pay down the unfunded liability for the Retirement Plan, the University maintains a 6.0% contribution rate on pension eligible earnings up to the IRS limit with respect to employees who elect Savings Choice (employees who elect Savings Choice are not Retirement Plan participants).

⁽²⁾ The University's contribution rate on pension eligible earnings up to the IRS limit with respect to employees who elect Savings Choice (and are not Retirement Plan participants) will increase to 7% effective July 1, 2018.

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 based on the funded ratio of the LBNL 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.

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, 2013 through July 1, 2017.

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, 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%)
July 1, 2016	54,164.5	57,228.5	69,305.4	(12,076.9)	82.6%	78.2%	10,607.6	(113.9%)
July 1, 2017	62,114.3	61,884.5	72,965.3	(11,080.7)	84.8%	85.1%	11,095.9	(99.9%)

(1) Includes campuses, medical centers and laboratories.

Source: UCOP, 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

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

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.

Net Pension Liability: The University follows GASB Statement No. 68, which 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 of June 30, 2017, the University reported a net pension liability to the Retirement Plan of \$10.7 billion. As of June 30, 2016, the University reported a net pension liability to the Retirement Plan of \$15.1 billion. The decrease in net pension liability for Fiscal Year 2016-17 was primarily driven by a higher than expected investment return of 14.5% as compared to the investment return assumption of 7.25%. For a further description of the University's pension accounting practices, see "APPENDIX B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-2017", 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 B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-2017", 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 of the University and its affiliates. Membership in the Retirement Plan or participation in the defined contribution plan (Savings Choice 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.

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, 2017, the balance in the Trust was \$106.7 million.

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 Trust'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 Trust'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. In the July 1, 2016 actuarial valuation, the University changed its method of estimating the net retiree health benefit liability to conform to GASB Statement No. 75.

The actuarial methods and assumptions used in determining the total retiree health benefit liability as of July 1, 2017 include the entry age normal level percentage of pay actuarial cost method; a 3.58% discount rate (index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher); health care cost trend rate ranging from 5.1% to 9.5 % for non-Medicare and 5.0% to 5.8% for Medicare initially, depending on the type of plan, reduced by increments to an ultimate rate of 5.0% over 15 years.

⁽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.

Net Other Post-Employment Benefit (OPEB) Liability: As of July 1, 2017, the Retiree Health Plan’s independent actuary reported that the Net OPEB Liability for campuses and medical centers was approximately \$18.6 billion. As of July 1, 2016, the Net OPEB Liability for campuses and medical centers was approximately \$21.1 billion. The decrease in net OPEB liability for Fiscal Year 2016-17 was primarily driven by the increase in the discount rate from 2.85% to 3.58%.

For more information on the Retiree Health Plan and Trust, see “APPENDIX B - THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-17 – Management’s Discussion and Analysis – The University of California Retiree Health Benefit Trust (UCRHBT).”

APPENDIX B

THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2016-2017

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UNIVERSITY
OF
CALIFORNIA

Annual Financial Report

16/17



For nearly 150 years, the University of California has educated the brightest minds and helped California become a beacon of innovation. UC is a national leader in developing new knowledge and moving our discoveries into the market so they can benefit our society, our economy and our planet.

UNIVERSITY OF CALIFORNIA
16/17 Annual Financial Report

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Letter from the President



This has been a transformative year for the University of California. Our commitment to diversity, innovation and affordability remains strong as we continue to navigate shifting political and economic environments.

The University reaffirmed its commitment to California students by enrolling its largest class of incoming freshman and transfer students this year, and establishing limits on nonresident enrollment at our nine undergraduate campuses. A powerful engine of socioeconomic mobility, UC continues to broaden access to higher education for low-income and first-generation students.

In addition, our campuses have continued to open their doors to undocumented students, postdoctoral fellows and researchers, who represent some of our nation's brightest minds. In 2016, I committed \$8.4 million per year through 2018 to expand financial, legal and support services for undocumented students. The principles of diversity and tolerance are central to our mission, and the University will continue to defend these values with vigor as we foster an inclusive environment for all students, faculty and staff.

The University's dedication to combatting global climate change remains unwavering. This year, we have made great strides toward our goal of achieving carbon neutrality by 2025. UC has reduced systemwide emissions by 15 percent since 2009, largely through the adoption of

renewable energy sources. In 2016, we made the largest solar energy purchase ever made by a U.S. university, which will eventually supply 14 percent of the University's total energy. As the nation's largest research university, UC performs nearly 10 percent of all academic research and development conducted in the United States. Our scientists and researchers are working diligently to develop innovative and scalable solutions to climate change for the benefit of generations to come.

The University proudly recognizes its ever-growing role in the California economy. UC is the third largest employer in the state of California. Furthermore, 430,000 (or 1 in 46) California jobs are supported by UC operations. UC researchers produce an average of five inventions per day, and 934 startups have been founded on UC patents to date. By sustaining the quality, access and affordability of a UC education, we strive to further our mission of teaching, research and public service to ensure that California remains at the forefront of innovation.

A handwritten signature in black ink that reads "Janet Napolitano". The signature is written in a cursive, flowing style.

JANET NAPOLITANO
PRESIDENT, UNIVERSITY OF CALIFORNIA

Letter from the Executive Vice President, CFO



Over the past year, the University of California has made great progress against our ambitious plans to boost college opportunity for students across California. We saw the largest one-year increase in California undergraduate enrollment since World War II with an increase of over 7,400 new California undergraduates entering the University as compared to the last year. In addition to enrolling a greater number of students, we also maintained our commitment to accessibility and affordability with 57% of our undergraduates paying no tuition.

We also continued our long history of enrolling and graduating large numbers of first-generation and low-income students. Almost 90,000 of our students (42% of our 210,369 undergraduates) are first-generation students and 41% of our students are Pell Grant recipients. The New York Times annual survey which ranks U.S. colleges that did the most for low-income students found that the top five (and six of the top ten) were UC campuses. The role the University plays in promoting social mobility for our students is transformational, not only for the students but also for the state of California.

Tuition was moderately increased by less than \$300 per student, augmenting the funds available for financial aid by approximately \$50 million, demonstrating our commitment to affordability. These additional financial aid funds will cover the tuition increase for 100,000 California undergraduates and provide funds for rent, food, books and other expenses. Despite this modest increase, our tuition remains very low relative to our peer universities and we continue to offer an unmatched return on investment in terms of the quality of education delivered.

In fact, two of our campuses, UC Berkeley and UCLA, were recognized in Forbes as the #1 and #2 best value colleges based on “tuition costs, school quality, post-grad earnings, student debt and graduation success.”

I am happy to report that the Office of the Chief Investment Officer produced exceptional returns for the year. The office, which manages approximately \$111 billion in assets, beat benchmarks across asset classes and returned 14.5% for our pension and 15.1% for our endowment. These returns will certainly help to solidify the University’s financial position.

While we have continued to deliver on our mission of affordability, accessibility and quality, we must continue to address our capital needs and long-term liabilities. We have developed viable plans to address the liabilities from our retirement plan and retiree health benefits, however maintaining existing buildings and adding new facilities to house and educate our growing student body remains challenging. We are actively looking to harness alternate sources of capital and utilize different delivery models to meet our capital needs in the coming years.

Quality, access and affordability are the hallmark of all UC campuses. We have had a strong year in delivering on these values, but we must remain diligent going forward in order to sustain these qualities for future generations.

A handwritten signature in black ink, appearing to read "Nathan Brostrom". The signature is fluid and cursive, written over a white background.

NATHAN BROSTROM
EXECUTIVE VICE PRESIDENT, CFO
UNIVERSITY OF CALIFORNIA



Facts in Brief *(Unaudited)*

	2017	2016*	2015*	2014	2013
STUDENTS					
Undergraduate fall enrollment	210,369	199,127	195,078	191,369	183,498
Graduate fall enrollment	59,743	58,311	57,185	52,757	55,188
Total fall enrollment	270,112	257,438	252,263	244,126	238,686
University Extension enrollment	346,365	371,240	374,442	367,355	343,758
FACULTY AND STAFF <i>(full-time equivalents)</i>	154,522	149,312	144,765	139,208	137,667
SUMMARY FINANCIAL INFORMATION <i>(in thousands of dollars, except for retirement plan participation)</i>					
UNIVERSITY OF CALIFORNIA					
PRIMARY REVENUE SOURCES					
Student tuition and fees, net ¹	\$4,477,213	\$4,132,352	\$3,784,046	\$3,585,859	\$3,402,946
Grants and contracts, net	5,440,977	5,272,595	5,204,761	5,117,736	5,078,750
Medical centers, educational activities and auxiliary enterprises, net	16,153,092	14,638,715	13,611,153	12,108,409	10,890,244
State educational, financing and capital appropriations	3,279,520	3,052,540	2,812,634	2,683,315	2,484,877
Federal Pell Grants	381,650	376,264	376,186	316,064	345,910
Private gifts, net	1,167,395	1,091,519	971,245	890,614	801,940
Capital gifts and grants, net	255,559	248,705	186,836	473,464	256,670
Department of Energy laboratories	1,147,233	1,259,768	1,234,509	1,250,820	1,032,350
OPERATING EXPENSES BY FUNCTION					
Instruction	6,966,479	6,814,684	6,200,694	5,477,857	5,477,776
Research	4,579,067	4,618,459	4,366,909	3,837,361	4,287,561
Public service	670,757	639,022	580,693	581,069	554,231
Academic support	2,416,824	2,460,694	2,022,401	1,835,476	2,008,866
Student services	1,168,883	1,099,934	1,012,422	923,284	819,209
Institutional support	1,443,208	1,583,783	1,597,486	1,463,248	1,361,439
Operation and maintenance of plant	677,034	656,635	590,602	618,030	640,712
Student financial aid ²	721,538	649,258	553,340	580,807	603,805
Medical centers	10,451,455	10,004,181	8,513,134	7,965,944	7,201,528
Auxiliary enterprises	1,300,590	1,265,535	1,187,777	1,104,050	1,153,775
Depreciation and amortization	1,909,870	1,804,046	1,661,033	1,709,672	1,555,254
Impairment of capital assets	7,354	10,127	11,219	11,201	31,441
Department of Energy laboratories	1,139,232	1,271,260	1,234,958	1,244,335	1,026,088
Other	66,936	71,573	72,200	81,061	123,513
INCREASE (DECREASE) IN NET POSITION	1,065,376	(2,701,762)	(233,459)	1,381,385	(1,334,155)
FINANCIAL POSITION					
Investments, at fair value	24,478,362	22,208,767	22,492,804	21,748,774	18,942,008
Capital assets, at net book value	30,669,753	29,688,815	28,642,779	27,645,157	26,179,885
Other assets and deferred outflows	13,384,911	18,234,126	12,596,994	11,652,661	14,808,621
Outstanding debt, including capital leases	(20,502,876)	(19,951,287)	(19,020,755)	(18,030,749)	(17,236,225)
Obligations for pension and retiree health benefits	(30,029,779)	(36,920,138)	(29,331,031)	(16,165,378)	(19,915,231)
Other liabilities and deferred inflows	(15,615,037)	(11,940,325)	(11,359,071)	(15,137,452)	(12,866,312)
Net position	2,385,334	1,319,958	4,021,720	11,713,013	9,912,746

¹ Scholarship allowances, including both financial aid and fee waivers that are not paid directly to students, are recorded primarily as a reduction of student tuition and fees in the statement of revenues, expenses and changes in net position.

² Includes only financial aid paid directly to students. The state-administered California grant awards are not included as expenses since the government determines grantees. College work study expenses are shown in the programs in which the student worked.

* Certain revisions in classifications, or restatements, have been made to prior year information in order to conform to current year presentation.

	2017	2016	2015	2014	2013
SUMMARY FINANCIAL INFORMATION (in thousands of dollars, except for participant information)					
UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
PRIMARY REVENUE SOURCES					
Private gifts, net	\$866,190	\$780,983	\$765,445	\$789,573	\$711,363
PRIMARY EXPENSES					
Grants to campuses	939,784	889,278	827,467	958,873	632,132
INCREASE (DECREASE) IN NET POSITION	1,065,307	(13,479)	455,416	849,091	746,263
FINANCIAL POSITION					
Investments, at fair value	8,206,990	7,115,278	7,084,587	6,496,649	5,799,788
Pledges receivable, net	865,979	842,423	822,530	861,005	713,710
Net position	8,602,157	7,536,850	7,550,329	7,094,913	6,245,822
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
PLAN PARTICIPATION					
Plan membership	289,429	280,185	266,254	262,988	243,140
Retirees and beneficiaries currently receiving payments	72,995	70,077	67,321	64,191	58,934
PRIMARY REVENUE SOURCES					
Contributions ¹	\$4,779,464	\$4,551,152	\$4,458,802	\$3,215,712	\$2,175,983
Interest, dividends and other investment income, net	1,435,299	1,316,116	1,323,449	1,344,731	1,254,981
Net appreciation (depreciation) in the fair value of investments	8,616,400	(2,300,033)	1,320,388	9,137,618	5,106,081
PRIMARY EXPENSES					
Benefit payments	3,185,062	2,974,331	2,803,627	2,583,223	2,396,577
Participant and member withdrawals	1,514,990	1,367,528	1,730,362	1,369,641	1,364,304
INCREASE IN NET POSITION	10,079,633	(831,668)	2,515,920	9,701,107	4,731,316
FINANCIAL POSITION					
Investments, at fair value	82,574,019	73,196,935	71,595,607	68,747,604	60,104,811
Members' defined benefit pension plan benefits	62,179,236	54,225,589	55,122,875	52,853,829	45,404,828
Participants' defined contribution plan benefits	22,482,632	20,356,646	20,291,028	20,044,154	17,792,048
ACTUARIAL INFORMATION (as of the beginning of the year)					
Actuarial value of assets	57,228,542	53,762,286	48,327,981	43,572,353	42,965,028
Actuarial accrued liability	69,305,423	65,841,255	60,417,177	57,380,961	54,619,620
UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST					
PLAN PARTICIPATION					
Plan membership	164,089	161,072	157,221	154,930	151,458
Retirees and beneficiaries currently receiving benefits	41,157	39,774	38,488	37,207	35,872
PRIMARY REVENUE SOURCES					
Contributions	\$328,057	\$310,320	\$315,586	\$343,395	\$267,886
Interest, dividends and other investment income, net	606	155	41	13	
PRIMARY EXPENSES					
Insurance premiums	290,234	284,836	327,019	318,490	313,105
INCREASE (DECREASE) IN NET POSITION	34,173	21,896	(14,539)	20,884	(45,219)
FINANCIAL POSITION					
Investments, at fair value	97,801	53,604	24,250	37,125	7,750
Net position for retiree health benefits	106,714	72,541	50,645	65,184	44,300
ACTUARIAL INFORMATION (as of the beginning of the year)					
Actuarial value of assets	72,541	50,645	65,184	44,300	97,435
Actuarial accrued liability	21,168,812	17,320,301	14,093,786	13,253,215	14,559,017

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	29,310	29,557	27,331	30,873	6,815	19,814
Graduate fall enrollment	10,863	7,840	6,136	14,074	521	3,176
Total fall enrollment	40,173	37,397	33,467	44,947	7,336	22,990
University Extension enrollment ¹	37,361	61,876	27,282	116,785	14	26,418
DEGREES CONFERRED²						
Bachelor	7,457	7,560	6,570	8,163	1,161	4,392
Advanced	3,892	2,113	2,132	4,410	75	848
Cumulative	637,843	276,913	192,513	564,773	6,274	113,682
FACULTY AND STAFF (full-time equivalents)						
	14,077	23,607	14,590	35,497	1,877	5,510
LIBRARY COLLECTIONS³ (volumes)						
	12,397,095	4,689,374	3,762,070	10,397,818	1,537,725	3,949,901
CAMPUS LAND AREA (in acres)						
	8,163	7,331	1,527	465	8,195	2,050
CAMPUS FINANCIAL FACTS⁴ (in thousands of dollars)						
OPERATING EXPENSES BY FUNCTION						
Instruction	\$771,410	\$873,746	\$720,220	\$2,170,179	\$61,915	\$314,352
Research	554,857	537,670	261,634	790,148	24,622	116,345
Public service	79,946	93,117	13,168	139,301	5,852	6,016
Academic support	131,756	277,291	180,450	692,741	24,863	43,778
Student services	222,631	151,953	105,006	176,063	25,741	88,177
Institutional support	261,518	161,677	83,408	262,520	60,847	71,847
Operation and maintenance of plant	87,679	101,185	52,539	98,876	18,570	40,859
Student financial aid	135,583	87,817	83,666	120,937	16,583	61,976
Medical centers		1,874,451	1,010,205	2,108,305		
Auxiliary enterprises	148,553	105,441	131,192	374,550	28,657	71,609
Depreciation and amortization	228,367	230,530	199,508	374,672	29,906	68,619
Impairment of capital assets		1,384	771	2,305		67
Other ⁵	13,921	7,080	9,290	19,106	2,315	3,452
Total	\$2,636,221	\$4,503,342	\$2,851,057	\$7,329,703	\$299,871	\$887,097
GRANTS AND CONTRACTS REVENUE						
Federal government	\$377,872	\$396,905	\$200,535	\$588,609	\$19,117	\$81,825
State government	79,555	131,982	18,167	55,982	1,286	9,339
Local government	12,978	18,208	2,900	62,259	88	1,965
Private	179,739	141,431	77,000	241,527	4,960	29,010
Total	\$650,144	\$688,526	\$298,602	\$948,377	\$25,451	\$122,139
UNIVERSITY ENDOWMENTS						
Nonspendable endowments	\$394,464	\$121,212	\$13,549	\$283,219	\$16,414	\$14,118
Funds functioning as endowments	2,108,514	595,108	466,679	2,003,748	19,821	56,743
Annual income distribution	87,377	32,870	6,576	42,664	1,717	2,310
CAMPUS FOUNDATIONS' ENDOWMENTS						
Nonspendable endowments	1,123,333	245,988	241,030	1,111,481	8,327	100,685
Funds functioning as endowments	786,645	159,667	131,997	849,747	2,937	59,553
CAPITAL ASSETS						
Capital assets, at net book value	3,816,390	3,298,211	2,737,928	6,179,054	699,261	1,135,739
Capital expenditures	83,639	309,833	254,645	505,626	129,265	101,892

¹ For academic year 2016-17.

² As of academic year 2015-16.

³ As of June 30, 2016.

⁴ Excludes DOE laboratories.

⁵ Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expenses for loans.

	SAN DIEGO	SAN FRANCISCO	SANTA BARBARA	SANTA CRUZ	SYSTEMWIDE ⁶
STUDENTS					
Undergraduate fall enrollment	28,127		21,580	16,962	
Graduate fall enrollment	7,689	4,857	2,766	1,821	
Total fall enrollment	35,816	4,857	24,346	18,783	
University Extension enrollment ¹	56,995		5,449	14,185	
DEGREES CONFERRED²					
Bachelor	6,203		5,235	4,016	
Advanced	2,054	938	956	552	
Cumulative	194,943	53,612	230,468	114,608	
FACULTY AND STAFF (full-time equivalents)	23,197	22,501	6,303	4,489	2,874
LIBRARY COLLECTIONS ³ (volumes)	4,395,656	1,172,468	3,206,594	2,527,566	
CAMPUS LAND AREA (in acres)	2,162	205	1,127	6,088	27
CAMPUS FINANCIAL FACTS⁴ (in thousands of dollars)					
OPERATING EXPENSES BY FUNCTION					
Instruction	\$918,520	\$330,576	\$292,259	\$182,899	\$330,403
Research	788,647	996,963	176,311	89,204	242,666
Public service	23,142	124,406	12,830	19,990	152,989
Academic support	480,042	315,062	61,101	36,211	173,529
Student services	142,428	26,019	98,802	90,170	41,893
Institutional support	191,125	195,064	76,800	52,458	25,944
Operation and maintenance of plant	100,863	73,692	44,728	35,831	22,212
Student financial aid	63,157	19,952	87,014	41,776	3,077
Medical centers	1,528,988	3,732,262			197,244
Auxiliary enterprises	160,731	31,271	104,558	104,159	39,869
Depreciation and amortization	288,735	342,704	75,129	59,138	12,562
Impairment of capital assets	1,691	653	119	364	
Other ⁵	6,062	3,726	6,121	128	(4,265)
Total	\$4,694,131	\$6,192,350	\$1,035,772	\$712,328	\$1,238,123
GRANTS AND CONTRACTS REVENUE					
Federal government	\$671,047	\$704,068	\$120,567	\$67,685	\$30,296
State government	33,489	66,514	4,686	4,426	48,781
Local government	16,868	184,092	1,547	139	5,448
Private	234,400	405,834	54,725	22,660	30,466
Total	\$955,804	\$1,360,508	\$181,525	\$94,910	\$114,991
UNIVERSITY ENDOWMENTS					
Nonspendable endowments	\$44,858	\$140,719	\$32,502	\$11,310	\$70,701
Funds functioning as endowments	678,720	1,341,300	105,466	80,937	1,237,798
Annual income distribution	24,739	41,879	5,297	3,190	28,600
CAMPUS FOUNDATIONS' ENDOWMENTS					
Nonspendable endowments	420,533	611,579	126,898	44,071	
Funds functioning as endowments	213,784	495,294	67,562	52,429	
CAPITAL ASSETS					
Capital assets, at net book value	4,761,686	4,555,316	1,560,417	1,172,711	753,040
Capital expenditures	695,889	290,705	190,545	101,440	313,198

¹ For academic year 2016-17.

² As of academic year 2015-16.

³ As of June 30, 2016.

⁴ Excludes DOE laboratories.

⁵ Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expenses for loans.

⁶ Includes expenses for systemwide education and research programs, systemwide support services and administration. Full-time equivalents count, as of fall 2015, 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, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. 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 (2015, 2016, 2017 etc.) in this discussion refer to the fiscal years ended June 30.

The University of California's financial report communicates financial information for the University of California (the "University"), the University of California campus foundations ("campus foundations"), the University of California Retirement System ("UCRS") and the University of California Retiree Health Benefit Trust ("UCRHBT") through five primary financial statements and notes to the financial statements. Three of the primary statements, the statements of net 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 the affiliated campus foundations. The financial statements for the campus foundations are presented discretely from the University. Two of the primary statements, the statements of plans' and trust's fiduciary net 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 \$33.4 billion and encompasses ten campuses, five 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.

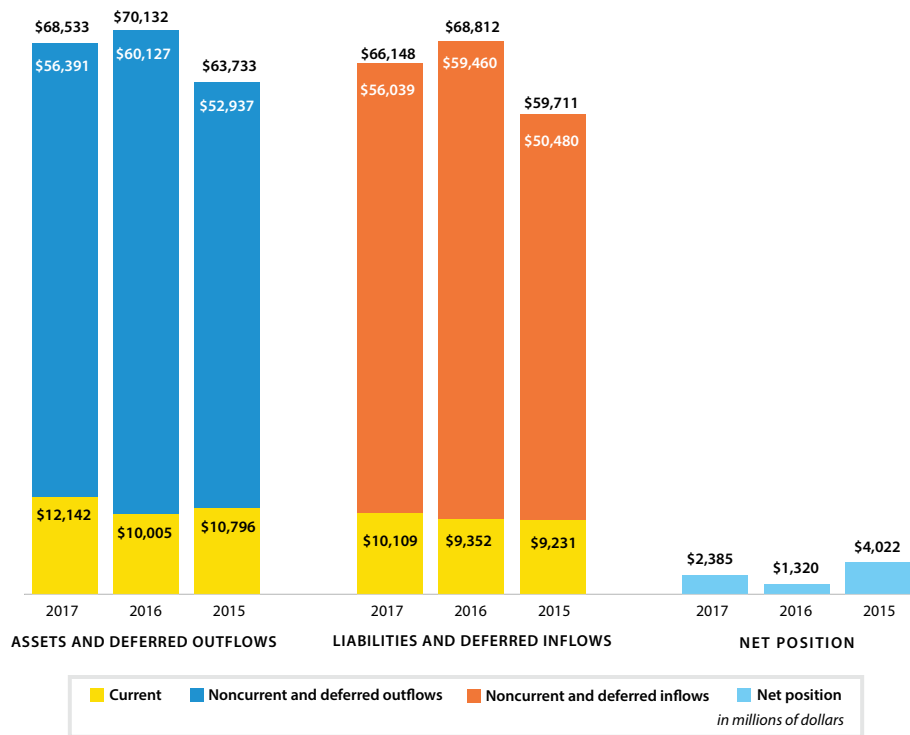
Agriculture and Natural Resources. The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves a large and diverse agricultural community. The division collaborates on research with all campuses, and conducts studies at nine research and extension 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 University implemented new accounting policies for retiree health benefits. These changes in accounting policies are designed to improve transparency by requiring recognition of the net retiree health benefits liability in the financial statements. This standard requires recognition of retiree health benefit expense using a systematic method, designed to match the cost of retiree health benefits with service periods for eligible employees. Financial information for 2016 and 2015 have been restated to retroactively apply these new accounting policies.



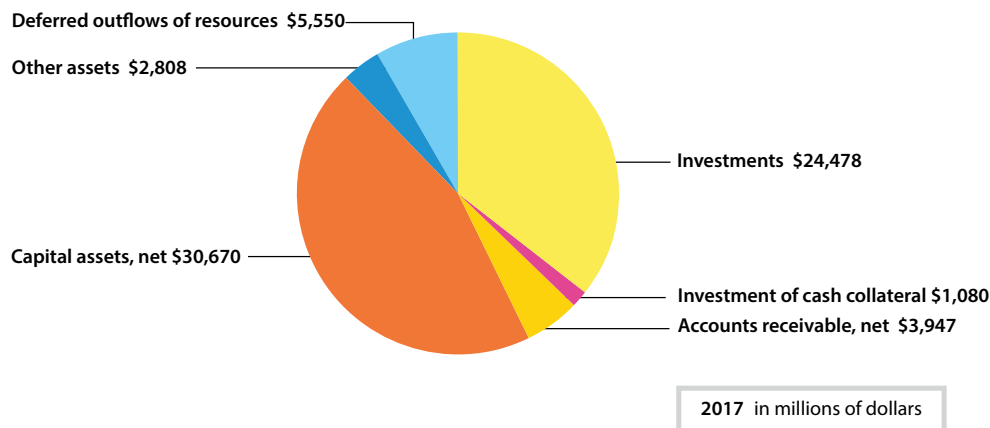
The statement of net position presents the financial position of the University at the end of each year. It displays all of the University’s assets, deferred outflows, liabilities and deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position.

The major components of the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2017, 2016 and 2015 are as follows:

(in millions of dollars)

	2017	2016	2015
ASSETS			
Investments	\$24,478	\$22,209	\$22,493
Investment of cash collateral	1,080	825	775
Accounts receivable, net	3,947	3,320	3,281
Capital assets, net	30,670	29,689	28,643
Other assets	2,808	3,919	3,808
Total assets	62,983	59,962	59,000
DEFERRED OUTFLOWS OF RESOURCES	5,550	10,170	4,732
LIABILITIES			
Debt, including commercial paper	20,503	19,951	19,021
Securities lending collateral	1,079	825	775
Net pension liability	10,739	15,125	10,671
Net retiree health benefits liability	19,290	21,795	18,660
Other liabilities	8,253	7,648	7,426
Total liabilities	59,864	65,344	56,553
DEFERRED INFLOWS OF RESOURCES	6,284	3,468	3,157
NET POSITION			
Net investment in capital assets	13,343	12,816	12,138
Restricted:			
Nonexpendable	1,176	1,148	1,111
Expendable	7,163	6,546	7,206
Unrestricted	(19,297)	(19,190)	(16,433)
Total net position	\$2,385	\$1,320	\$4,022

The University's Assets and Deferred Outflows



The University's total assets and deferred outflows of resources have decreased to \$68.5 billion in 2017, compared to \$70.1 billion in 2016 and \$63.7 billion in 2015. Capital assets have increased due to continued investments in facilities and investments changed due to financial market returns. Deferred outflows fluctuate due to changes in the University's net pension and retiree health benefits liabilities.

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 seeks to maximize to a total return objective and is intended to supplement STIP. The University maximizes its use of TRIP while still maintaining sufficient funds in STIP to meet operational and 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 a positive return of 15.1 percent in 2017, a negative return of 3.5 percent in 2016 and a positive return of 6.1 percent in 2015. TRIP had positive returns of 7.7 percent, 0.3 percent and 2.6 percent in 2017, 2016 and 2015, respectively. STIP had positive returns of 1.3 percent, 1.3 percent and 1.4 percent in 2017, 2016 and 2015, respectively.

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

Accounts receivable include amounts due from state and federal governments on contracts and grants, patient receivables for medical centers and professional fees, investment income, proceeds from security sales and amounts due for private grants and contracts. Receivables fluctuate based on the timing of collections and investment sales activity.

Capital assets, net

The University’s enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. 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 project in 2017 and 2016 was the Jacobs Medical Center in San Diego. Total additions of capital assets were \$3.0 billion in 2017 as compared to \$3.0 billion in 2016 and \$2.8 billion in 2015.

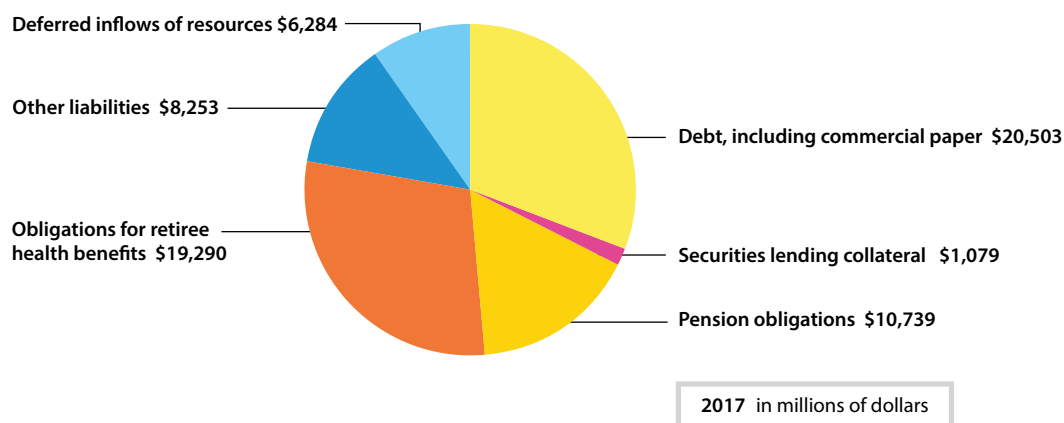
Other assets

Other assets include cash, investments held by trustees, pledge receivables, note and mortgage receivables, inventories and receivables from the DOE. The noncurrent receivable from the DOE, which fluctuates with the net pension and retiree health benefits liabilities due to the DOE’s continuing responsibility to contribute for retired and terminated vested members of LLNS and LANL, decreased by \$337.8 million in 2017 as compared to 2016 and decreased by \$22.7 million in 2016 as compared to 2015. Investments held by trustees decreased by \$0.7 billion in 2017 due to the transfer of self-insurance reserves to the University’s wholly-owned captive insurance company. Since the captive insurance company is blended with the University, the captive’s investments are included with the University’s investments.

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 and net retiree health benefits liabilities are reported as deferred outflows of resources. In 2017, deferred outflows decreased due to higher than expected investment returns in the University of California Retirement Plan (UCRP) portfolio. In 2016, deferred outflows increased due to lower than expected investment returns in the UCRP portfolio.

The University's Liabilities and Deferred Inflows



The University's liabilities and deferred inflows of resources decreased to \$66.2 billion in 2017 as compared to \$68.8 billion in 2016 and \$59.7 billion in 2015. The changes in both 2017 and 2016 were primarily related to the issuance of additional debt to finance capital projects and the changes in the liabilities for pension and 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 \$551.6 million and \$931.0 million in 2017 and 2016, respectively. A summary of the activity follows:

<i>(in millions of dollars)</i>		
	2017	2016
ADDITIONS TO OUTSTANDING DEBT		
General Revenue Bonds	\$1,136	\$813
Medical Center Pooled Revenue Bonds	1,046	
Limited Project Revenue Bonds		532
Capital leases	55	67
Other borrowings	126	200
Blended Component Unit Revenue Bonds	54	283
Bond premium, net	223	195
Additions to outstanding debt	2,640	2,090
REDUCTIONS TO OUTSTANDING DEBT		
Refinancing and prepayments	(1,321)	(528)
Scheduled principal payments	(400)	(340)
Payments on other borrowings	(64)	(180)
Commercial paper, net	(225)	(47)
Amortization of bond premium	(78)	(64)
Reductions to outstanding debt	(2,088)	(1,159)
Net increase in outstanding debt	\$552	\$931

The University's debt, which is used to primarily finance capital assets, includes \$812.7 million, \$1.0 billion and \$1.1 billion of commercial paper outstanding at the end of 2017, 2016 and 2015, respectively. Total debt outstanding was \$20.5 billion at the end of 2017 compared to \$20.0 billion and \$19.0 billion at the end of 2016 and 2015, respectively.

In 2017, \$2.2 billion of debt was issued, including General Revenue Bonds totaling \$1.1 billion and Medical Center Pooled Revenue Bonds totaling \$1.0 billion to finance and refinance certain facilities and projects. Reductions to outstanding debt in 2017 were \$2.1 billion, including \$1.3 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 \$151.2 million.

In August 2016, the University entered into an agreement with a developer to design, construct, finance, operate and maintain certain auxiliary, administrative, academic and research facilities of one of its campuses, for which the University will finance \$600 million of the total costs. Other borrowings at June 30, 2017 include \$43.7 million for the present value of the payments expected to be made over the term of the agreement through 2055 for the repayment of the private debt incurred by the developer during the construction phase. In the event that the agreement with the developer were terminated, the outstanding portion of the private debt incurred by the developer from the construction phase would become an obligation of the University.

Subsequent to year-end, in August 2017, \$148.6 million of revenue bonds were issued through a conduit issuer to finance the construction of student housing facilities and the University issued \$860.4 million of Limited Project Revenue Bonds.

In 2016, \$1.6 billion of debt was issued. The University issued General Revenue Bonds totaling \$813.1 million and Limited Project Revenue Bonds totaling \$532.1 million to finance and refinance certain facilities and projects of the University. In addition, \$282.6 million of revenue bonds were issued through a conduit issuer to refund outstanding bonds which financed the construction of student housing facilities. Reductions to outstanding debt in 2016 were \$1.2 billion, including \$527.9 million 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 \$31.5 million.

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 decreased by \$225.2 million in 2017 as compared to 2016, and decreased by \$47.1 million in 2016 compared to 2015. 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 \$1.1 billion with major financial institutions for the purpose of providing additional liquidity for certain variable-rate demand 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.

Net pension liability 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 net pension liability was \$10.7 billion, \$15.1 billion and \$10.7 billion in 2017, 2016 and 2015, respectively. The change in net pension liability for 2017 was primarily driven by higher than expected investment returns on the UCRP investment portfolio. The change in net pension liability for 2016 was primarily driven by lower than expected investment returns on the UCRP investment portfolio. UCRP's total investment rate of return was positive 14.5 percent in 2017, negative 2.0 percent in 2016 and positive 4.5 percent in 2015. The discount rate used to estimate the net pension liability was 7.25 percent in 2017, 2016 and 2015.

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 \$615.1 million, \$974.7 million and \$1.0 billion for 2017, 2016 and 2015, respectively, representing the DOE's share of the net pension liability.

The University's 2016 and 2015 financial statements have been restated as a result of adopting new accounting standards for retiree health benefits. The University's net retiree health benefits liability was \$19.3 billion, \$21.8 billion and \$18.7 billion, in 2017, 2016 and 2015, respectively. The University funds the retiree health benefits through UCRHBT based on a projection of benefits on a pay-as-you-go basis and the assets in the trust are not sufficient to fund retiree health benefits. Therefore, the Bond Buyer 20-year tax-exempt general obligations municipal bond index rate is used to discount the retiree health benefit liabilities. The changes in net retiree health benefits liability have been primarily driven by the changes in discount rates used to estimate the retiree health benefit liability. The discount rates as of June 30, 2017, 2016 and 2015 were 3.58 percent, 2.85 percent and 3.80 percent, respectively.

LBNL participates in the University's retiree health benefit plans and, based on contractual arrangements with the DOE, the University is reimbursed for retiree health benefit costs associated with retirees who previously worked at LBNL. The University recorded receivables from the DOE of \$642.8 million, \$621.1 million and \$577.4 million for 2017, 2016 and 2015, respectively, representing the DOE's share of the net retiree health benefits liability.

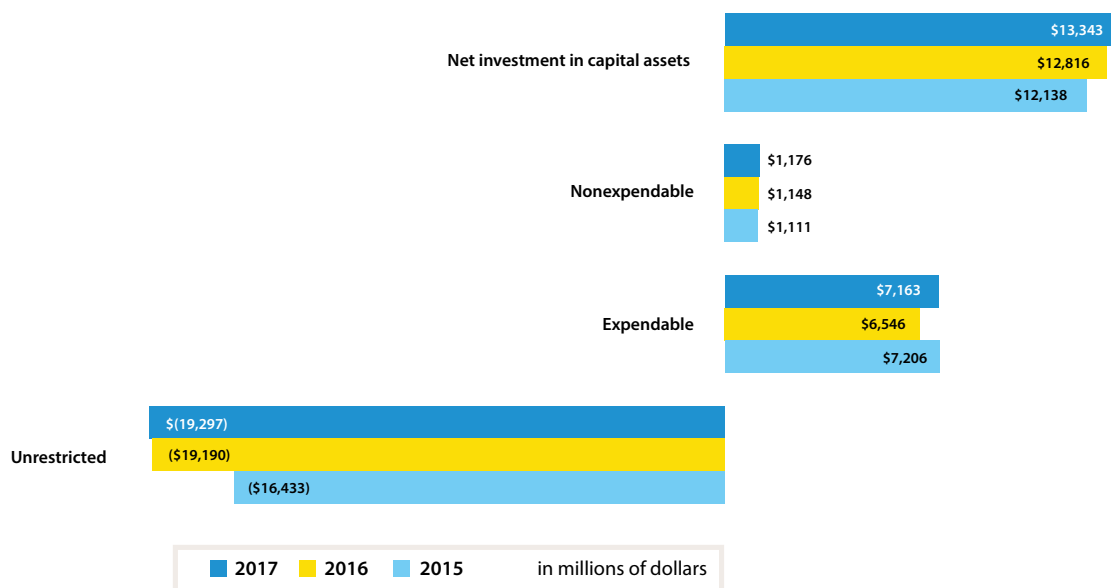
Other liabilities

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, sales of certain future patent royalty revenues and certain changes in the net pension and net retiree health benefits liabilities. Deferred inflows of resources increased in 2017 by \$2.8 billion due to the increase in the discount rate for estimating the net retiree health benefit liability. Deferred inflows of resources increased slightly in 2016 due to lower than expected investment returns on the UCRP portfolio offset by sales of certain future royalty revenues and the decrease in the discount rate for estimating the net retiree health benefit liability.

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. Net position was restated for 2016 and 2015 as a result of adopting new accounting rules. The University's net position was \$2.4 billion in 2017 compared to \$1.3 billion in 2016 and \$4.0 billion in 2015. 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 \$13.4 billion in 2017 compared to \$12.8 billion and \$12.1 billion for the years ended June 30, 2016 and 2015, respectively. The University continues to invest in its physical facilities to support growth.

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 2017 and 2016, 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 assets available to pay such obligations. 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.

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, and 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. Results of operations for 2016 and 2015 have been restated as a result of adopting new accounting policies for retiree health benefits. A summarized comparison of the operating results for 2017, 2016 and 2015, 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)

	2017			2016			2015		
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL
REVENUES									
Student tuition and fees, net	\$4,477		\$4,477	\$4,132		\$4,132	\$3,784		\$3,784
State educational appropriations		\$3,278	3,278		\$3,048	3,048		\$2,792	2,792
Federal Pell Grants		382	382		376	376		376	376
Grants and contracts, net	5,441		5,441	5,273		5,273	5,205		5,205
Medical centers, net	11,241	13	11,255	10,236	15	10,251	9,477	22	9,499
Educational activities, net	3,333		3,333	2,973		2,973	2,740		2,740
Auxiliary enterprises, net	1,579		1,579	1,430		1,430	1,394		1,394
Department of Energy laboratories	1,147		1,147	1,278		1,278	1,241		1,241
Private gifts, net		1,167	1,167		1,092	1,092		971	971
Investment income, net		299	299		311	311		319	319
Other revenues	939	70	1,009	962	51	1,013	911	38	949
Revenues supporting core activities	28,157	5,209	33,366	26,284	4,893	31,177	24,752	4,518	29,270
EXPENSES									
Salaries and wages	15,160		15,160	14,021		14,021	13,109		13,109
Pension benefits	1,888		1,888	2,687		2,687	1,515		1,515
Retiree health benefits	1,576		1,576	1,875		1,875	1,528		1,528
Other employee benefits	2,938		2,938	2,837		2,837	2,666		2,666
Scholarships and fellowships	729		729	652		652	547		547
Utilities	292		292	283		283	273		273
Supplies and materials	3,240		3,240	3,109		3,109	2,876		2,876
Depreciation and amortization	1,910		1,910	1,804		1,804	1,698		1,698
Department of Energy laboratories	1,139		1,139	1,271		1,271	1,235		1,235
Interest expense		721	721		693	693		662	662
Other expenses	4,648	60	4,708	4,411	46	4,457	4,157	16	4,173
Expenses associated with core activities	33,520	781	34,301	32,950	739	33,689	29,604	678	30,282
Income (loss) from core activities	\$(5,363)	\$4,428	\$(935)	\$(6,666)	\$4,154	\$(2,512)	\$(4,852)	\$3,840	\$(1,012)
OTHER NONOPERATING ACTIVITIES									
Net appreciation (depreciation) in fair value of investments			1,722			(473)			544
Income (loss) before other changes in net position			787			(2,985)			(468)
OTHER CHANGES IN NET POSITION									
State capital appropriations			2			4			21
Capital gifts and grants, net			255			249			187
Permanent endowments			21			30			27
Increase (decrease) in net position			1,065			(2,702)			(233)
NET POSITION									
Beginning of year, as previously reported			1,320			4,022			11,282
Cumulative effect of accounting changes									(7,027)
Beginning of year, restated			1,320			4,022			4,255
End of year			\$2,385			\$1,320			\$4,022

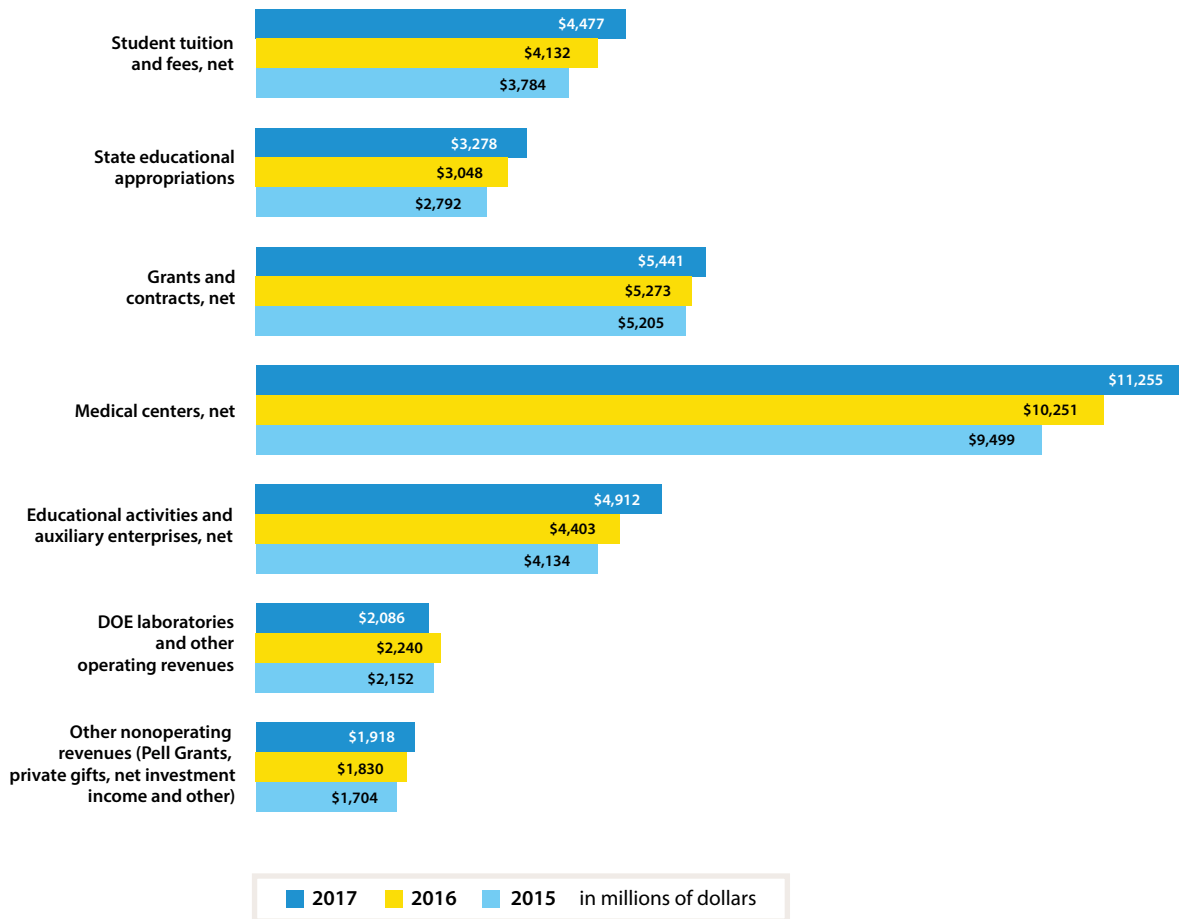
Revenues supporting core activities

Revenues to support the University’s core activities, including those classified as nonoperating revenues, were \$33.4 billion, \$31.2 billion and \$29.3 billion in 2017, 2016 and 2015, respectively. These diversified sources of revenue increased by \$2.2 billion in 2017 and \$1.9 billion in 2016.

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.

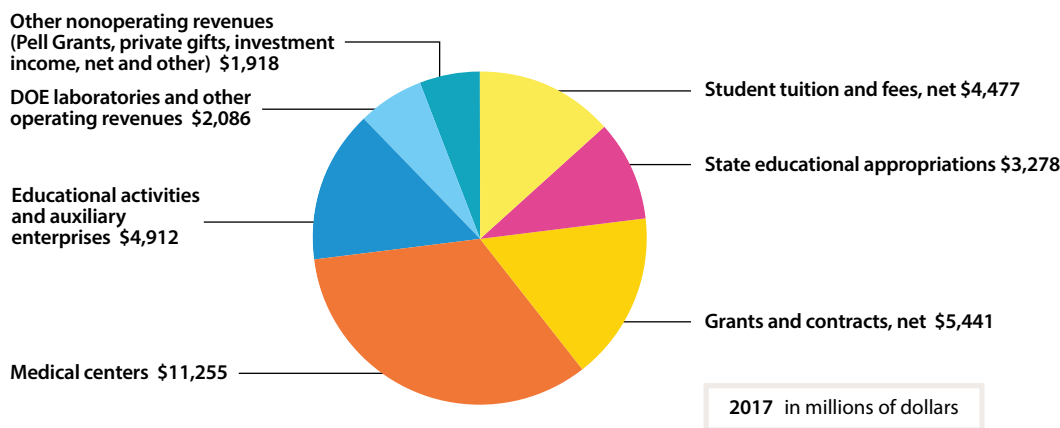
Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from medical centers, educational activities and auxiliary enterprises such as student housing, food service operations and parking.

Revenues in the various categories have changed 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.

Categories of both operating and nonoperating revenue that supported the University's core activities in 2017 are as follows:



Student tuition and fees, net

Net student tuition and fees were \$4.5 billion, \$4.1 billion and \$3.8 billion in 2017, 2016 and 2015, respectively. Scholarship allowances, or financial aid, are the difference between the stated charge for tuition and fees and the amount that is paid by the student and third parties on behalf of the student and are reported as an offset to revenue. Scholarship allowances of \$0.9 billion and \$1.1 billion in 2017 and 2016, respectively, were netted against student tuition and fees. Student tuition and fees, net of scholarship allowances, increased by \$344.9 million and \$348.3 million in 2017 and 2016, respectively.

In 2017, enrollment grew by 4.9 percent and in 2016 enrollment grew by 2.1 percent. Mandatory tuition for resident undergraduates did not change in 2017 or 2016. Certain nonresident undergraduates and resident and nonresident graduate students experienced increases in mandatory tuition and fees. Professional degree supplemental tuition varies by discipline; certain increases were approved for 2017 and 2016.

State educational appropriations

Educational appropriations from the state of California were \$3.3 billion, \$3.0 billion and \$2.8 billion in 2017, 2016 and 2015, respectively. State educational appropriations increased in 2017 and 2016 by \$229.4 million and \$256.7 million, respectively.

The budget framework agreed to in 2015 with the governor called for base budget adjustments of four percent annually over four years, through 2019. The framework also called for no tuition increases in 2017 and 2016, with tuition increases generally pegged to the rate of inflation beginning in 2018. The student service fee increased five percent in 2017 and 2016, with the customary one-third of the increase being directed to financial aid. The framework also acknowledged the University's plan to increase nonresident supplemental tuition by up to eight percent for 2017 and 2016 and five percent thereafter. The framework recognized the increases in professional degree supplemental tuition approved by The Regents in November 2014 for existing and new programs and called for no increases in law school tuition through 2019.

Grants and contracts, net

Revenue from federal, state, private and local government grants and contracts — including an overall facilities and administration cost recovery of \$1.1 billion, \$1.0 billion and \$993.5 million in 2017, 2016 and 2015, respectively — were \$5.4 billion, \$5.3 billion and \$5.2 billion in 2017, 2016 and 2015, respectively.

In 2017, federal grants and contracts revenue increased \$14.0 million, or 0.4 percent, as compared to 2016. In 2016, federal grants and contracts revenue increased \$37.2 million, or 1.2 percent, as compared to 2015. Federal grants and contracts include federal facilities and administrative cost recovery of \$764.0 million, \$745.6 million and \$720.3 million in 2017, 2016 and 2015, respectively. 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)

	2017	2016	2015
Department of Health and Human Services	\$1,987	\$1,917	\$1,847
National Science Foundation	465	469	498
Department of Education	57	83	70
Department of Defense	275	258	259
National Aeronautics and Space Administration	95	135	137
Department of Energy (excluding national laboratories)	107	104	100
Other federal agencies	273	279	296
Federal grants and contracts net revenue	\$3,259	\$3,245	\$3,207

Medical centers, net

Medical center revenues, including state hospital fee grants, net of allowances, increased \$1.0 billion, or 9.8 percent, in 2017 and increased \$752.2 million, or 7.9 percent, in 2016. Revenues increased in 2017 due to the opening of the new UCSD Jacobs Medical Center in November 2016, increases in supplemental revenues and higher inpatient and outpatient utilization at all of the medical centers. Revenues increased in 2016 due to the new UCSF Mission Bay facility, which opened in February 2015, and was open for all of 2016, contributing to a significant portion of the growth in revenues.

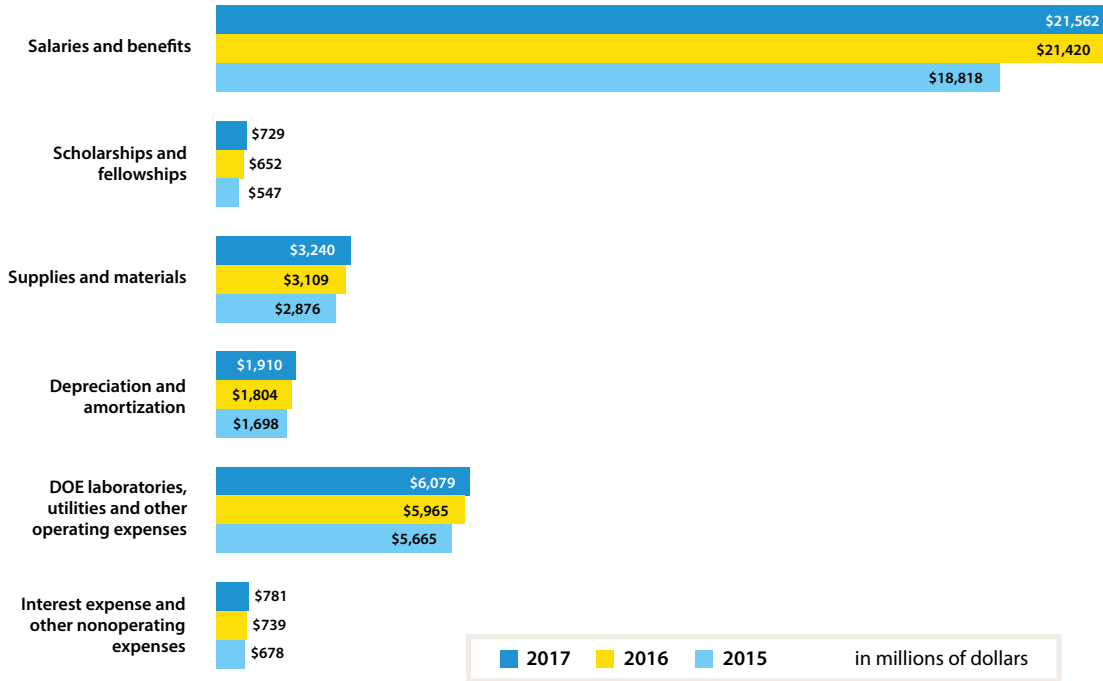
Educational activities and auxiliary enterprises, net

Revenue from educational activities, primarily medical professional fees, net of allowances, grew by \$359.8 million, or 12.1 percent, in 2017 and \$232.6 million, or 8.5 percent, in 2016. The growth is generally associated with an expanded patient base and improved collections.

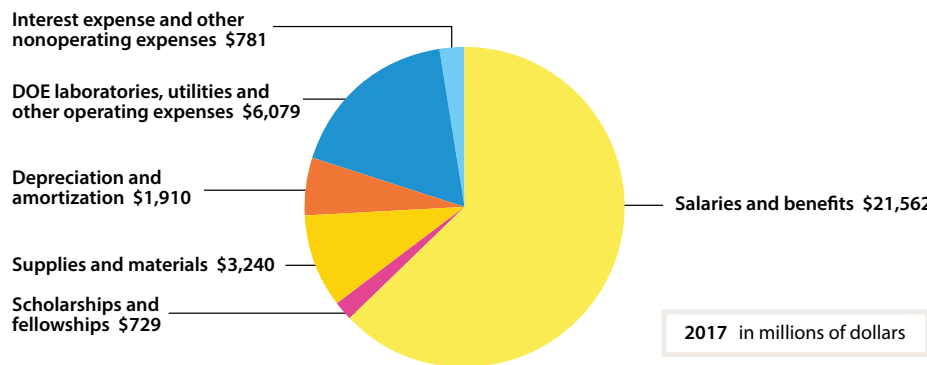
Auxiliary enterprises include housing, food service, parking, bookstores, student centers, unions and childcare centers. Auxiliary revenues have increased consistent with enrollment. Revenue from auxiliary enterprises, net of allowances, grew by \$149.2 million, or 10.4 percent, in 2017 and \$35.9 million, or 2.6 percent in 2016 which is consistent with changes in enrollment.

Expenses associated with core activities

Expenses associated with the University’s core activities, including those classified as nonoperating expenses, were \$34.3 billion, \$33.7 billion and \$30.3 billion in 2017, 2016 and 2015, respectively. Expenses increased in 2017 by \$0.6 billion and in 2016 by \$3.4 billion, primarily due to growth in the University’s operations, principally at the medical centers. Pension expenses decreased in 2017 and increased in 2016 as a result of actual compared to expected earnings on the UCRP portfolio. Expenses in the various categories are as follows:



Categories of both operating and nonoperating expenses related to the University’s core activities in 2017 are as follows:



Salaries and benefits

Approximately 62.9 percent of the University’s expenses were related to salaries and benefits. There were 154,500 full-time equivalent (FTE) employees in 2017, excluding employees who were associated with LBNL whose salaries and benefits were included as laboratory expenses, as compared to 149,300 FTEs in 2016.

Salaries and benefits increased by 0.7 percent in 2017. In 2017, salaries increased by 8.1 percent, 3.5 percent due to an increase in the number of FTEs and 4.5 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post-retirement health care benefits, increased by \$100.5 million, or 3.5 percent, in 2017 due to higher health insurance costs. Pension expense decreased by \$0.8 billion, or 29.7 percent, due to better than expected investment returns. Retiree health expense decreased by \$298.8 million or 15.9 percent due to the higher discount rate in 2017.

Salaries and benefits increased by 13.0 percent in 2016 due to growth in the University's operations. In 2016, salaries increased by 7.0 percent, 3.1 percent due to an increase in the number of FTEs and 3.7 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post-retirement health care benefits, increased by \$171.4 million, or 6.4 percent in 2016, due to higher health insurance costs. Pension expense increased by \$1.2 billion or 77.3 percent due to lower than expected investment returns. Retiree health expense increased by \$347.0 million or 22.7 percent due to the lower discount rate in 2016.

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 \$2.1 billion, \$2.0 billion and \$2.0 billion in 2017, 2016 and 2015, respectively. Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense were \$728.6 million, \$651.6 million and \$547.1 million in 2017, 2016 and 2015, 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 \$55.7 million, or 2.8 percent, in 2017 as compared to 2016, and by \$34.2 million, or 1.7 percent, in 2016 compared to 2015.

Supplies and materials

During 2017 and 2016, supplies and materials costs increased by \$131.0 million, or 4.2 percent and \$232.5 million, or 8.1 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 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 \$5.4 billion, \$6.7 billion and \$4.9 billion in 2017, 2016 and 2015, respectively. The operating losses in 2017, 2016 and 2015 were partially offset by \$4.4 billion, \$4.1 billion and \$3.8 billion, respectively, of net nonoperating revenue that supports core operating activities of the University. Expenses associated with core activities in 2017, 2016 and 2015 exceeded revenue available to support core activities by \$0.9 billion, \$2.5 billion and \$1.0 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 2017, the University recognized net appreciation in the fair value of investments of \$1.7 billion, as compared to net depreciation of \$473.3 million during 2016 and net appreciation of \$543.6 million during 2015. The University's portfolio experienced positive returns in the equity markets in 2017. The University's portfolio experienced declines in 2016 principally due to declines in the equity 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 OF CALIFORNIA CAMPUS FOUNDATIONS

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

The Campus Foundations' Financial Position

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

The major components of the combined assets, liabilities and net position of the campus foundations at June 30, 2017, 2016 and 2015 are as follows:

<i>(in millions of dollars)</i>	2017	2016	2015
ASSETS			
Investments	\$8,207	\$7,115	\$7,085
Investment of cash collateral	43	42	37
Accounts receivable, net	40	33	79
Pledges receivable, net	866	842	823
Other assets	277	221	224
Total assets	9,433	8,253	8,248
LIABILITIES			
Accounts payable and other current liabilities	130	71	247
Securities lending collateral	43	42	37
Obligation under life income agreements and funds held for others	403	382	370
Other noncurrent liabilities	253	220	42
Total liabilities	829	715	696
DEFERRED INFLOWS OF RESOURCES	2	1	2
NET POSITION			
Restricted:			
Nonexpendable	4,046	3,700	3,422
Expendable	4,363	3,742	4,030
Unrestricted	193	95	98
Total net position	\$8,602	\$7,537	\$7,550

Investments increased in 2017 and were flat in 2016 due to the 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 Investments Subcommittee 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 \$2.2 billion, \$1.6 billion and \$1.3 billion of the campus foundations' investments at the end of 2017, 2016 and 2015, 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 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 changes in the fair value of investments were the primary reasons for the changes in value in 2017 and 2016.

The Campus Foundations' Results of Operations

The campus foundations' 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 2017, 2016 and 2015 is as follows:

(in millions of dollars)

	2017	2016	2015
OPERATING REVENUES			
Private gifts and other revenues	\$869	\$792	\$767
Total operating revenues	869	792	767
OPERATING EXPENSES			
Grants to campuses and other expenses	969	915	852
Total operating expenses	969	915	852
Operating loss	(100)	(123)	(85)
NONOPERATING REVENUES (EXPENSES)			
Investment income	73	53	65
Net appreciation (depreciation) in fair value of investments	799	(225)	207
Other nonoperating revenues (expenses)	5	4	(5)
Income (loss) before other changes in net position	777	(291)	182
OTHER CHANGES IN NET POSITION			
Permanent endowments	288	278	274
Increase (decrease) in net position	1,065	(13)	456
NET POSITION			
Beginning of year	7,537	7,550	7,094
End of year	\$8,602	\$7,537	\$7,550

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.

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 (UC-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 UC-VERIP. At June 30, 2017, UCRS' assets were \$94.0 billion, liabilities were \$9.3 billion and net position held in trust for pension benefits were \$84.7 billion, an increase of \$10.1 billion from 2016. At June 30, 2016, UCRS' assets were \$83.3 billion, liabilities were \$8.7 billion and net assets held in trust for pension benefits were \$74.6 billion, a decrease of \$831.7 million from 2015.

The major components of the assets, liabilities and net position available for pension benefits for 2017, 2016 and 2015 are as follows:

<i>(in millions of dollars)</i>			
	2017	2016	2015
ASSETS			
Investments	\$82,574	\$73,197	\$71,596
Participants' interests in mutual funds	3,351	2,768	4,948
Investment of cash collateral	6,842	6,751	5,177
Other assets	1,203	571	516
Total assets	93,970	83,287	82,237
LIABILITIES			
Securities lending collateral	6,838	6,750	5,178
Other liabilities	2,470	1,955	1,645
Total liabilities	9,308	8,705	6,823
NET POSITION HELD IN TRUST FOR PENSION BENEFITS			
Members' defined benefit plan benefits	62,179	54,225	55,123
Participants' defined contribution plan benefits	22,483	20,357	20,291
Total net position held in trust for pension benefits	\$84,662	\$74,582	\$75,414

The statements of changes in the plans' fiduciary net position is a presentation of UCRS' operating results. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2017, 2016 and 2015 is as follows:

<i>(in millions of dollars)</i>			
	2017	2016	2015
ADDITIONS			
Contributions	\$4,779	\$4,551	\$4,459
Net appreciation (depreciation) in fair value of investments	8,617	(2,300)	1,320
Investment and other income, net	1,437	1,318	1,326
Total additions	14,833	3,569	7,105
DEDUCTIONS			
Benefit payments and participant withdrawals	4,700	4,342	4,534
Plan expenses	53	59	55
Total deductions	4,753	4,401	4,589
Increase (decrease) in net position held in trust for pension benefits	\$10,080	\$(832)	\$2,516

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 result based upon unit values for UCRP was positive 14.5 percent in 2017 as compared to investment losses of 2.0 percent in 2016 and gains of 4.5 percent in 2015.

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 2017, 2016 and 2015 were \$3.4 billion, \$3.4 billion and \$3.3 billion, respectively. In 2017 and 2016, contributions include \$171.0 million and \$96.0 million, respectively, received from the state of California under the budget agreement. Contributions include additional deposits of \$481.0 million, \$563.6 million and \$700.0 million made by the University to UCRP in 2017, 2016 and 2015, respectively. University contribution rates to UCRP were 14.0 percent of covered payroll in 2017, 2016 and 2015. Employee contribution rates ranged between 7.0 percent and 9.0 percent in 2017, 2016 and 2015. In July 2017, The Regents approved increasing the University's contribution rate to UCRP to 15.0 percent effective July 1, 2018.

Benefit payments and participant withdrawals were \$358.2 million more in 2017 than in 2016 and \$192.1 million less in 2016 than in 2015. Payments from UCRP increase each year due to a growing number of retirees receiving payments and cost-of-living adjustments (COLAs). Benefit payments from UCRSP fluctuate based upon member withdrawals. Participant withdrawals increased by \$143.0 million, or 11.6 percent, in 2017 as compared to 2016, and decreased by \$320.6 million, or 20.7 percent, in 2016 as compared to 2015. As of June 30, 2017, there were 73,000 retirees and beneficiaries receiving payments from UCRS as compared to 70,000 as of June 30, 2016 and 67,300 as of June 30, 2015.

The net pension liability for UCRP was \$10.7 billion in 2017, \$15.1 billion in 2016 and \$10.6 billion in 2015. The decrease in net pension liability for 2017 of \$4.4 billion was due to higher than expected investment returns on the UCRP portfolio. The increase in net pension liability for 2016 of \$4.5 billion was due to lower than expected investment returns on the UCRP portfolio. The ratio of plan net position to total pension liability was 85.3 percent in 2017, 78.2 percent in 2016 and 83.8 percent in 2015.

Additional information on the retirement plans can be obtained from the 2017 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 the opportunity 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 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 2017, 2016 and 2015 are as follows:

(in millions of dollars)

	2017	2016	2015
ASSETS			
Investments	\$98	\$54	\$24
Other assets	26	34	39
Total assets	124	88	63
LIABILITIES			
Total liabilities	17	15	12
NET POSITION HELD IN TRUST FOR RETIREE HEALTH BENEFITS			
Total net position held in trust for retiree health benefits	\$107	\$73	\$51

The statement of changes in the trust's fiduciary net position is a presentation of the UCRHBT's operating results, and indicates whether the financial condition has improved or deteriorated during the year. Summarized operating results for 2017, 2016 and 2015 are as follows:

(in millions of dollars)

	2017	2016	2015
ADDITIONS			
Contributions	\$328	\$310	\$316
Total additions	328	310	316
DEDUCTIONS			
Insurance premiums and payments	290	284	327
Plan expenses	4	4	3
Total deductions	294	288	330
Increase (decrease) in net position held in trust for retiree health benefits	\$34	\$22	\$(14)

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 net retiree health liability for UCRHBT was \$18.7 billion, \$21.1 billion and \$18.0 billion in 2017, 2016 and 2015, respectively.

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 provided the University with base budget adjustments of four percent annually from 2016 through 2019. The framework also called for no tuition increases in 2016 and 2017, with tuition increases generally pegged to the rate of inflation beginning in 2018. The Student Services Fee increased 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 acknowledged the University's plan to increase nonresident supplemental tuition by up to eight percent in 2016 and 2017 and five percent thereafter. The framework also recognized 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 through 2019. In addition to these funding elements, the budget framework includes a number of performance-related provisions. The state budget for 2018 also includes one-time funds of \$169.0 million for UCRP.

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.

In July 2017, The Regents approved increasing the University contribution rate for UCRP to 15 percent (from 14 percent) effective July 1, 2018. The University funds retiree health benefits on a pay-as-you-go basis.

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.

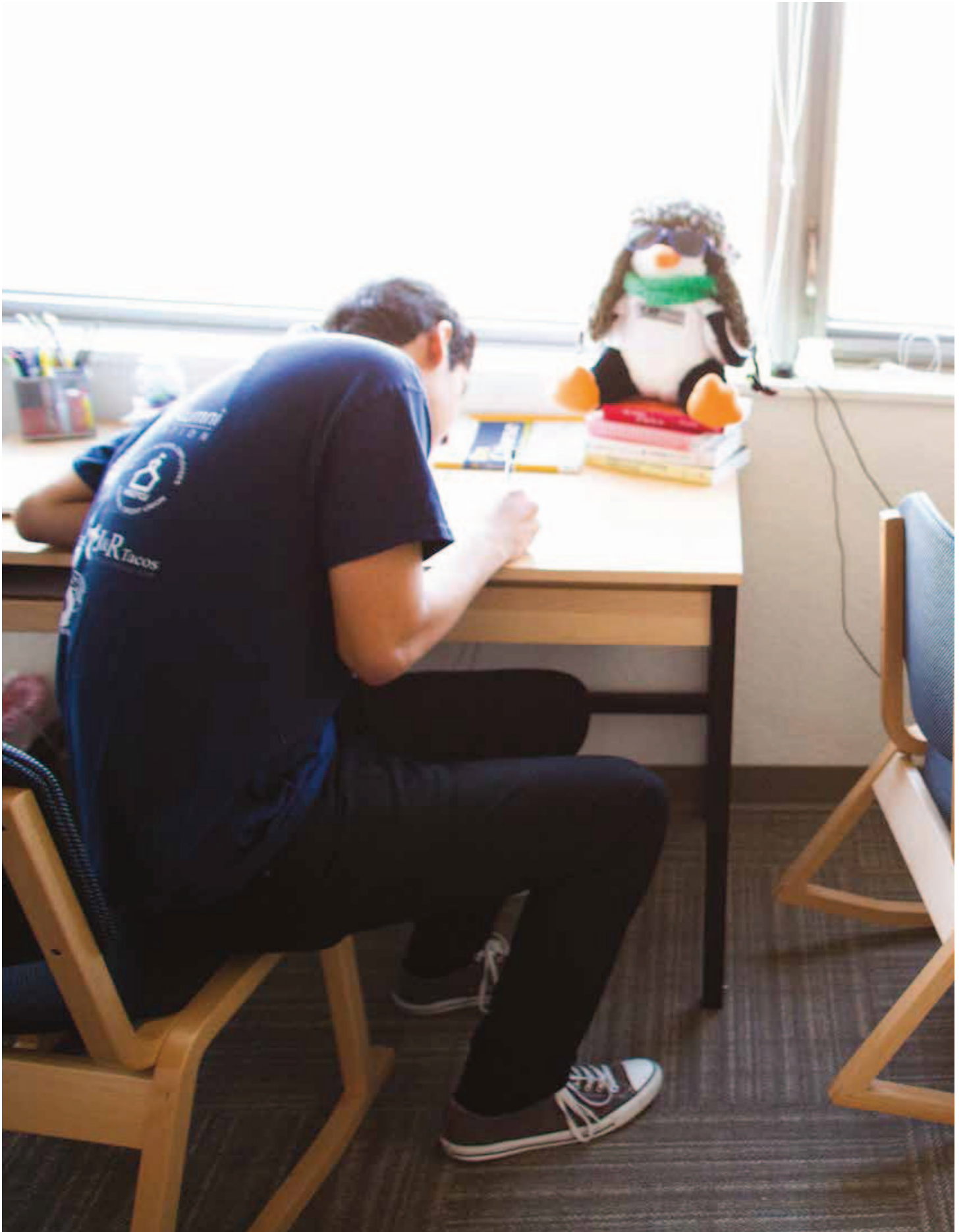
The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. Support for the University's capital program is expected to be provided from a combination of sources, including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

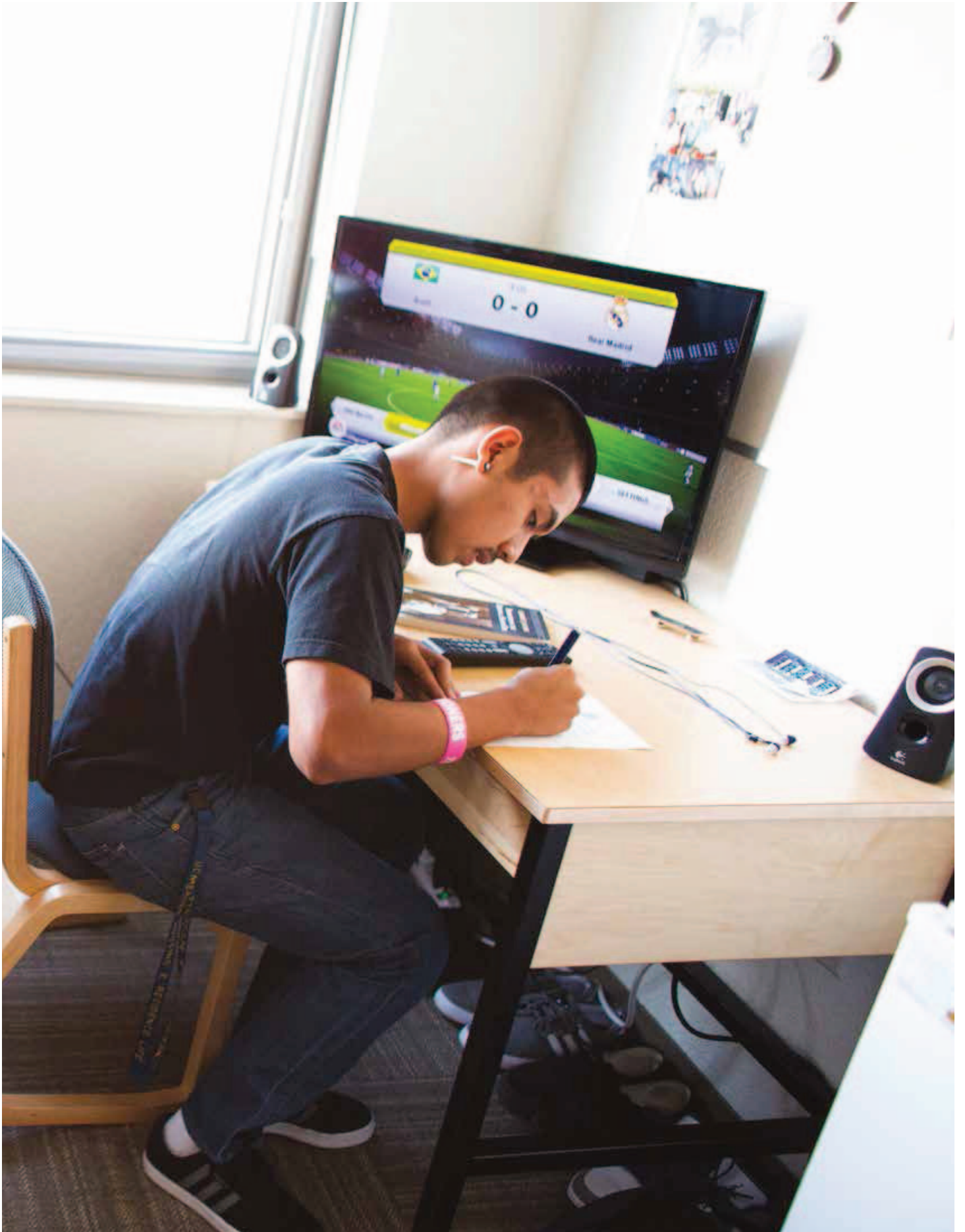
Additional budget information can be found at <http://universityofcalifornia.edu/news/budget/welcome.html>. Additional information concerning state budget matters and the state's financial condition may be found on the website of the California Department of Finance at <http://www.dof.ca.gov>.

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.





Report of Independent Auditors

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

We have audited the accompanying financial statements 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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

Our responsibility is to express opinions on the 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 audit 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 our 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, we consider internal control relevant to the University'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 University'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, the financial statements referred to above present fairly, in all material respects, the respective financial position 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, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed under "Significant Accounting Policies" in the notes to the financial statements, the University changed the manner in which it accounts for Postemployment Benefit Plans Other Than Pension Plans. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 12 through 31 and the required supplemental information on pages 110 through 117 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 audits 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.



PricewaterhouseCoopers LLP
San Francisco, California
October 12, 2017

UNIVERSITY OF CALIFORNIA
STATEMENTS OF NET POSITION

	UNIVERSITY OF CALIFORNIA		CAMPUS FOUNDATIONS	
	2017	2016	2017	2016
<i>At June 30, 2017 and 2016 (in thousands of dollars)</i>				
ASSETS				
Cash and cash equivalents	\$203,370	\$266,565	\$254,100	\$194,912
Short-term investments	6,249,657	4,944,611	674,868	479,410
Investment of cash collateral	947,353	680,838	37,357	34,641
Investments held by trustees	32,516	85,467		
Accounts receivable, net	3,946,891	3,319,518	40,012	32,562
Pledges receivable, net	23,181	17,056	192,484	217,971
Notes and mortgages receivable, net	50,137	52,672	6	6
Inventories	226,995	214,680		
Department of Energy receivable	123,896	94,307		
Other current assets	338,041	328,932	4,748	5,945
Current assets	12,142,037	10,004,646	1,203,575	965,447
Investments	18,228,705	17,264,156	7,532,122	6,635,868
Investment of cash collateral	132,476	144,093	5,224	7,332
Investments held by trustees	66,509	765,417		
Pledges receivable, net	33,031	30,050	673,495	624,452
Notes and mortgages receivable, net	314,018	327,169	427	1,014
Department of Energy receivable	1,257,926	1,595,767		
Capital assets, net	30,669,753	29,688,815		
Other noncurrent assets	138,927	141,505	17,760	19,471
Noncurrent assets	50,841,345	49,956,972	8,229,028	7,288,137
Total assets	62,983,382	59,961,618	9,432,603	8,253,584
DEFERRED OUTFLOWS OF RESOURCES	5,549,644	10,170,090		
LIABILITIES				
Accounts payable	2,394,554	1,623,237	21,762	18,485
Accrued salaries	644,500	995,235		
Employee benefits	394,673	440,270		
Unearned revenue	1,200,545	1,172,308	62,750	921
Collateral held for securities lending	1,079,318	824,677	42,581	41,973
Commercial paper	812,673	1,037,857		
Current portion of long-term debt	1,519,005	1,413,265		
Funds held for others	362,621	327,429	265,159	251,472
Department of Energy laboratories' liabilities	107,514	78,862		
Other current liabilities	1,593,297	1,438,527	45,470	51,875
Current liabilities	10,108,700	9,351,667	437,722	364,726
Federal refundable loans	246,131	243,913		
Self-insurance	584,232	558,158		
Obligations under life income agreements	34,479	32,021	137,713	130,314
Long-term debt	18,171,198	17,500,165		
Net pension liability	10,739,355	15,124,690		
Net retiree health benefits liability	19,290,424	21,795,448		
Other noncurrent liabilities	688,802	737,355	253,288	220,234
Noncurrent liabilities	49,754,621	55,991,750	391,001	350,548
Total liabilities	59,863,321	65,343,417	828,723	715,274
DEFERRED INFLOWS OF RESOURCES	6,284,371	3,468,333	1,723	1,460
NET POSITION				
Net investment in capital assets	13,342,824	12,816,190		
Restricted:				
Nonexpendable: Endowments and gifts	1,143,067	1,111,083	4,045,925	3,700,049
Nonexpendable: Minority interests	33,507	36,766		
Expendable: Endowments and gifts	6,881,101	6,084,997	4,363,100	3,741,932
Expendable: Other, including debt service, loans, capital projects and appropriations	281,627	461,402		
Unrestricted	(19,296,792)	(19,190,480)	193,132	94,869
Total net position	\$2,385,334	\$1,319,958	\$8,602,157	\$7,536,850

See accompanying Notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	UNIVERSITY OF CALIFORNIA		CAMPUS FOUNDATIONS	
	2017	2016	2017	2016
<i>Years ended June 30, 2017 and 2016 (in thousands of dollars)</i>				
OPERATING REVENUES				
Student tuition and fees, net	\$4,477,213	\$4,132,352		
Grants and contracts, net:				
Federal	3,258,526	3,244,529		
State	454,207	443,194		
Private	1,421,752	1,284,753		
Local	306,492	300,119		
Medical centers, net	11,241,269	10,235,900		
Educational activities, net	3,332,671	2,972,830		
Auxiliary enterprises, net	1,579,152	1,429,985		
Department of Energy laboratories	1,147,233	1,278,186		
Campus foundation private gifts			\$866,190	\$780,983
Other operating revenues, net	938,678	962,394	3,099	11,492
Total operating revenues	28,157,193	26,284,242	869,289	792,475
OPERATING EXPENSES				
Salaries and wages	15,159,736	14,021,131		
Pension benefits	1,887,570	2,686,688		
Retiree health benefits	1,575,663	1,874,504		
Other employee benefits	2,938,133	2,837,680		
Supplies and materials	3,239,587	3,108,907		
Depreciation and amortization	1,909,870	1,804,046		
Department of Energy laboratories	1,139,232	1,271,260		
Scholarships and fellowships	728,594	651,565		
Utilities	292,447	282,692		
Campus foundation grants			939,784	889,278
Other operating expenses	4,648,395	4,410,718	29,731	25,890
Total operating expenses	33,519,227	32,949,191	969,515	915,168
Operating loss	(5,362,034)	(6,664,949)	(100,226)	(122,693)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	3,277,808	3,048,384		
State hospital fee grants	13,303	15,137		
Build America Bonds federal interest subsidies	58,424	58,550		
Federal Pell Grants	381,650	376,264		
Private gifts, net	1,167,395	1,091,519		
Investment income:				
Short Term Investment Pool and other, net	204,840	233,232		
Endowment, net	85,540	71,761		
Securities lending, net	8,504	6,282	419	415
Campus foundations			72,690	52,826
Net appreciation (depreciation) in fair value of investments	1,721,798	(473,308)	799,242	(225,237)
Interest expense	(721,243)	(693,027)	(85)	(35)
Loss on disposal of capital assets	(59,567)	(47,070)		
Other nonoperating revenues (expenses)	10,856	(7,406)	5,082	3,168
Net nonoperating revenues (expense)	6,149,308	3,680,318	877,348	(168,863)
Income (loss) before other changes in net position	787,274	(2,984,631)	777,122	(291,556)
OTHER CHANGES IN NET POSITION				
Capital gifts and grants, net	255,559	248,705		
State capital appropriations	1,712	4,156		
Permanent endowments	20,831	30,008	288,185	278,077
Increase (decrease) in net position	1,065,376	(2,701,762)	1,065,307	(13,479)
NET POSITION				
Beginning of year, as previously reported	1,319,958	11,733,067	7,536,850	7,550,329
Cumulative effect of accounting changes		(7,711,347)		
Beginning of year, restated	1,319,958	4,021,720	7,536,850	7,550,329
End of year	\$2,385,334	\$1,319,958	\$8,602,157	\$7,536,850

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA
STATEMENTS OF CASH FLOWS

Years ended June 30, 2017 and 2016 (in thousands of dollars)	UNIVERSITY OF CALIFORNIA		CAMPUS FOUNDATIONS	
	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$4,466,850	\$4,131,891		
Grants and contracts	4,808,226	5,822,944		
Medical centers	11,173,461	10,227,768		
Educational activities	3,306,961	3,018,794		
Auxiliary enterprises	1,578,093	1,432,083		
Collection of loans from students and employees	80,393	73,285		
Campus foundation private gifts			\$700,024	\$679,092
Payments to employees	(15,492,680)	(14,048,211)		
Payments to suppliers and utilities	(7,691,984)	(7,552,418)		
Payments for pension benefits	(1,881,289)	(2,609,177)		
Payments for retiree health benefits	(333,928)	(325,493)		
Payments for other employee benefits	(2,829,325)	(2,837,415)		
Payments for scholarships and fellowships	(728,428)	(651,600)		
Loans issued to students and employees	(63,972)	(69,701)		
Payments to campuses and beneficiaries			(983,250)	(918,027)
Other receipts	1,209,221	696,852	58,490	17,955
Net cash used by operating activities	(2,398,401)	(2,690,398)	(224,736)	(220,980)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	3,277,402	3,051,306		
Federal Pell Grants	380,364	375,675		
State hospital fee grants	13,303	15,137		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	22,789	31,395	228,003	234,005
Other private gifts	1,129,424	1,065,909		
Receipt of retiree health contributions from UCRP	64,386	60,769		
Payment of retiree health contributions to UCRHBT	(58,198)	(60,123)		
Receipts from UCRHBT	348,291	336,708		
Payments for retiree health benefits made on behalf of UCRHBT	(360,210)	(345,613)		
Student direct lending receipts	772,234	762,127		
Student direct lending payments	(772,216)	(762,103)		
Proceeds from debt issuance	500,000			
Refinancing or prepayment of outstanding debt	(500,000)			
Commercial paper financing:				
Proceeds from issuance	23,497	12,300		
Payments of principal	(15,323)	(20,670)		
Interest paid on debt	(13,966)	(9,546)		
Other receipts (payments)	48,626	538,160	24,111	(6,909)
Net cash provided by noncapital financing activities	4,860,403	5,051,431	252,114	227,096
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	711,453	676,700		
Payments of principal	(944,811)	(715,395)	(192)	(970)
Interest paid	(4,825)	(3,457)		
State capital appropriations	9,602	5,319		
State financing appropriations		445		
Build America Bonds federal interest subsidies	58,421	58,438		
Capital gifts and grants	130,397	131,012		
Proceeds from debt issuance	2,088,512	2,045,061		
Proceeds from the sale of capital assets	17,720	46,037		
Purchase of capital assets	(2,679,314)	(2,669,898)		
Refinancing or prepayment of outstanding debt	(820,739)	(527,882)		
Scheduled principal paid on debt and capital leases	(461,183)	(518,713)		
Interest paid on debt and capital leases	(787,307)	(811,520)		
Net cash used by capital and related financing activities	\$(2,682,074)	\$(2,283,853)	\$(192)	\$(970)

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS *continued*

	UNIVERSITY OF CALIFORNIA		CAMPUS FOUNDATIONS	
	2017	2016	2017	2016
<i>Years ended June 30, 2017 and 2016 (in thousands of dollars)</i>				
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	\$86,593,485	\$104,492,954	\$1,366,988	\$1,706,275
Purchase of investments	(86,745,271)	(104,786,465)	(1,398,236)	(1,763,467)
Investment income, net of investment expenses	308,663	323,973	63,250	48,682
Net cash provided (used) by investing activities	156,877	30,462	32,002	(8,510)
Net increase (decrease) in cash and cash equivalents	(63,195)	107,642	59,188	(3,364)
Cash and cash equivalents, beginning of year	266,565	158,923	194,912	198,276
Cash and cash equivalents, end of year	\$203,370	\$266,565	\$254,100	\$194,912
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	\$(5,362,034)	\$(6,664,949)	\$(100,226)	\$(122,693)
<i>Adjustments to reconcile operating loss to net cash used by operating activities:</i>				
Depreciation and amortization expense	1,909,870	1,804,046		
Noncash gifts			(147,742)	(83,350)
Allowance for uncollectible accounts	266,431	268,673	19,245	6,591
Loss on impairment of capital assets	7,354	10,127		
<i>Change in assets and liabilities:</i>				
Investments held by trustees	737,280	(10,247)	2,094	
Accounts receivable	(960,355)	(319,228)	(931)	754
Pledges receivable			(45,460)	(32,875)
Inventories	(12,315)	(7,223)		
Other assets	(2,584)	(100,322)	2,544	(681)
Accounts payable	121,451	132,482	2,413	5,681
Accrued salaries	(350,735)	(78,293)		
Employee benefits	(52,110)	(25,244)		
Unearned revenue	26,000	107,436	64,259	1,219
Department of Energy	337,841	66,348		
Self-insurance	73,802	76,621		
Obligations under life income agreements			(6,150)	(8,533)
Net pension liability	(730,435)	506,299		
Net retiree health benefits liability	1,509,674	1,506,853		
Other liabilities	82,464	36,223	(14,782)	12,907
Net cash used by operating activities	\$(2,398,401)	\$(2,690,398)	\$(224,736)	\$(220,980)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	\$55,360	\$67,030		
Capital assets acquired with a liability at year-end	98,916	66,386		
Change in fair value of interest rate swaps classified as hedging derivatives	61,891	(61,030)		
Gifts of capital assets	122,913	111,836		
Other noncash gifts	33,194	31,132	\$199,500	\$131,084
Interest added to principal			2,934	

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

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)		UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)		TOTAL UCRS AND UCRHBT	
	2017	2016	2017	2016	2017	2016
<i>At June 30, 2017 and 2016 (in thousands of dollars)</i>						
ASSETS						
Investments	\$82,574,019	\$73,196,935	\$97,801	\$53,604	\$82,671,820	\$73,250,539
Participants' interests in mutual funds	3,351,454	2,767,673			3,351,454	2,767,673
Investment of cash collateral	6,841,530	6,751,492			6,841,530	6,751,492
Participant 403(b) loans	180,511	178,664			180,511	178,664
Accounts receivable:						
Contributions from University and affiliates	57,552	118,246	9,656	19,297	67,208	137,543
Investment income	80,593	95,610			80,593	95,610
Securities sales and other	884,657	178,454	147	24	884,804	178,478
Prepaid insurance premiums			16,125	15,277	16,125	15,277
Total assets	93,970,316	83,287,074	123,729	88,202	94,094,045	83,375,276
LIABILITIES						
Payable to University			17,015	15,661	17,015	15,661
Payable for securities purchased	2,380,442	1,658,231			2,380,442	1,658,231
Member withdrawals, refunds and other payables	89,590	297,089			89,590	297,089
Collateral held for securities lending	6,838,416	6,749,519			6,838,416	6,749,519
Total liabilities	9,308,448	8,704,839	17,015	15,661	9,325,463	8,720,500
NET POSITION HELD IN TRUST						
Members' defined benefit plan benefits	62,179,236	54,225,589			62,179,236	54,225,589
Participants' defined contribution plan benefits	22,482,632	20,356,646			22,482,632	20,356,646
Retiree health benefits			106,714	72,541	106,714	72,541
Total net position held in trust	\$84,661,868	\$74,582,235	\$106,714	\$72,541	\$84,768,582	\$74,654,776

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

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)		UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)		TOTAL UCRS AND UCRHBT	
	2017	2016	2017	2016	2017	2016
<i>Years ended June 30, 2017 and 2016</i> <i>(in thousands of dollars)</i>						
ADDITIONS (REDUCTIONS)						
<i>Contributions:</i>						
Members and employees	\$2,206,455	\$2,020,972			\$2,206,455	\$2,020,972
State	171,000	96,000			171,000	96,000
University	2,402,009	2,434,180	\$328,057	\$310,320	2,730,066	2,744,500
Total contributions	4,779,464	4,551,152	328,057	310,320	5,107,521	4,861,472
<i>Investment income (expense), net:</i>						
Net appreciation/depreciation in fair value of investments	8,616,400	(2,300,033)			8,616,400	(2,300,033)
Interest, dividends and other investment income	1,386,834	1,272,141	606	155	1,387,440	1,272,296
Securities lending income	89,075	60,415			89,075	60,415
Securities lending fees and rebates	(40,610)	(16,440)			(40,610)	(16,440)
Total investment income (loss), net	10,051,699	(983,917)	606	155	10,052,305	(983,762)
Interest income from contributions receivable	1,472	1,771			1,472	1,771
Total additions	14,832,635	3,569,006	328,663	310,475	15,161,298	3,879,481
DEDUCTIONS						
<i>Benefit payments:</i>						
Retirement payments	2,330,361	2,170,775			2,330,361	2,170,775
Member withdrawals	140,666	136,249			140,666	136,249
Cost-of-living adjustments	474,815	430,795			474,815	430,795
Lump sum cash outs	292,270	285,780			292,270	285,780
Preretirement survivor payments	47,778	46,835			47,778	46,835
Disability payments	30,470	30,769			30,470	30,769
Death payments	9,368	9,377			9,368	9,377
Participant withdrawals	1,374,324	1,231,279			1,374,324	1,231,279
Total benefit payments	4,700,052	4,341,859			4,700,052	4,341,859
<i>Insurance premiums:</i>						
Insured plans			161,142	173,635	161,142	173,635
Self-insured plans			119,667	101,477	119,667	101,477
Medicare Part B reimbursements			9,425	9,724	9,425	9,724
Total insurance premiums, net			290,234	284,836	290,234	284,836
<i>Other deductions:</i>						
Plan administration	39,823	48,381	4,256	3,743	44,079	52,124
Other	13,127	10,434			13,127	10,434
Total other deductions	52,950	58,815	4,256	3,743	57,206	62,558
Total deductions	4,753,002	4,400,674	294,490	288,579	5,047,492	4,689,253
Increase (decrease) in net position held in trust	10,079,633	(831,668)	34,173	21,896	10,113,806	(809,772)
NET POSITION HELD IN TRUST						
Beginning of year	74,582,235	75,413,903	72,541	50,645	74,654,776	75,464,548
End of year	\$84,661,868	\$74,582,235	\$106,714	\$72,541	\$84,768,582	\$74,654,776

See accompanying Notes to Financial Statements.

Notes to Financial Statements

Years ended June 30, 2017 and 2016

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 oversight responsibilities 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.

Fiat Lux Risk and Insurance Company (“Fiat Lux”), the University’s wholly owned captive insurance company, is a blended component unit 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. Children’s Hospital & Research Center Foundation, a nonprofit public benefit corporation, is organized and operated for the purpose of supporting CHRCO. CHRCO, combined with its foundation, is a blended component unit of the University.

The University has eleven legally separate, tax-exempt, affiliated campus foundations, one for each campus and the Lawrence Berkeley National Laboratory (LBNL). 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 Governmental Accounting Standards Board (GASB) requirements as discretely presented component units of the University.

Specific assets and liabilities and all revenues and expenses associated with the 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) which includes two defined benefit plans, the University of California Retirement Plan (UCRP) and the University of California Voluntary Early Retirement Incentive Plan (UC-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). As a result, UCRHBT's statements of trust's fiduciary net position and changes in trust's fiduciary net position are shown as a fiduciary fund 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, the opportunity 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 GASB.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was implemented by the University as of July 1, 2016. This Statement establishes financial reporting standards for retiree health benefit plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of the retiree health benefit plans in existing guidance by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement revises note disclosures and required supplementary information (RSI) related to the measurement of the retiree health benefits liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Implementation of Statement No. 74 resulted in additional disclosures for UCRHBT.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the University as of July 1, 2016. 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 benefits liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefits 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 benefits liability be included in retiree health benefits expense in the period of change. The effects of reporting Statement No. 75 in the University's financial statements for the year ended June 30, 2016, were as follows:

(in thousands of dollars)

UNIVERSITY OF CALIFORNIA			
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016			
	AS PREVIOUSLY REPORTED	EFFECT OF ADOPTION OF STATEMENT NO. 75	AS RESTATED
STATEMENT OF NET POSITION			
Department of Energy receivable	\$1,268,771	\$326,996	\$1,595,767
Total assets	59,634,622	326,996	59,961,618
Deferred outflows of resources	5,573,864	4,596,226	10,170,090
Net retiree health benefit liability	10,456,840	11,338,608	21,795,448
Total liabilities	54,004,809	11,338,608	65,343,417
Deferred inflows of resources	1,732,279	1,736,054	3,468,333
Unrestricted net position	(11,039,040)	(8,151,440)	(19,190,480)
Total net position	9,471,398	(8,151,440)	1,319,958
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Department of Energy laboratories - operating revenues	\$1,259,768	\$18,418	\$1,278,186
Total operating revenues	26,265,824	18,418	26,284,242
Retiree health benefit expense	1,448,105	426,399	1,874,504
Other employee benefits	2,823,986	13,694	2,837,680
Department of Energy laboratories - operating expenses	1,252,842	18,418	1,271,260
Total operating expenses	32,490,680	458,511	32,949,191
Loss from operations	(6,224,856)	(440,093)	(6,664,949)
Loss before other changes in net position	(2,544,538)	(440,093)	(2,984,631)
Change in net position	(2,261,669)	(440,093)	(2,701,762)

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the University's fiscal year beginning July 1, 2016. This Statement amends the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions — an Amendment of GASB Statement No. 27*, to exclude pensions provided to employees of state or local governmental employers through cost-sharing, multiple-employer defined benefit pension plans that are not state or local governmental pension plans. This Statement establishes requirements for recognition and measurement of pension expense, expenditures and liabilities; note disclosures; and required supplementary information. Implementation of Statement No. 78 had no impact on the financial statements.

The adoption of Statements No. 74, 75 and 78 did not result in any adjustments to the financial statements of the campus foundations or UCRS.

The significant accounting policies of the University are as follows:

Cash and cash equivalents. The University and campus foundations consider all balances in demand deposit accounts to be cash. The University classifies all other highly liquid cash equivalents 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 measured and 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 by 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. Investment in non-exchange traded debt and equity investments are valued using inputs provided by independent pricing services or by broker/dealers who actively trade in these markets. Certain securities may be valued on a basis of a price provided by a single source.

Investments also include private equities, absolute return funds, real estate, real asset and certain corporate asset-backed securities. Private equities include venture capital partnerships, buyout and international funds. Fair values for interests in

private equity, absolute return partnerships and real estate partnerships are based on valuations provided by the general partners of the respective partnerships. The valuations are primarily based on the most recent net asset value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through June 30, 2017 and 2016.

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. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

For other investments, the University considers various factors to estimate fair value, such as the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections as well as discounted cash flow analysis. The selection of an appropriate technique may be affected by the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, the University may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment.

The University exercises due diligence in assessing the external managers' use of and adherence to fair value principles. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, including market conditions, redemption terms and restrictions and risks inherent to the inputs of the external investment managers' valuation. In situations where the information provided by the external manager is deemed to not be representative of the fair value as of the measurement date, management evaluates specific features of the investment and utilizes supplemental fair value information provided by the external manager along with any relevant market data to measure the investment's fair value.

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. Estimates of the fair value of interests in externally held irrevocable trusts where the University is the beneficiary of either the income or the remainder that will not become a permanent endowment upon distribution to the University are based upon the present value of the expected future income or, if available, the University's proportional interest in the fair value of the trust assets.

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

Campus foundations may invest all or a portion of their investments in University-managed investment pools. Certain 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 included in the Campus Foundations' column.

Funds held by trustees. The University and campus foundations have been named the irrevocable beneficiary for charitable remainder trusts for which the University and campus foundations are not the trustee. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the University or the respective 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 campus foundations are also an income beneficiary of certain trusts where the assets are invested and administered by outside trustees.

Consistent with the University's and campus foundations' 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 campus foundations recognize contribution revenue when all eligibility requirements have been met.

Derivative financial instruments. Derivative instruments are recorded at fair value. Futures contracts, foreign currency exchange contracts, stock rights and warrants, options and swaptions are valued at the settlement 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 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.

Pledges receivable, net. Unconditional pledges of private gifts to the University or campus foundations, 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 and the related pledges receivable 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 acquisition value at the date of donation in the case of gifts. Estimates of acquisition 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 campus foundations acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to the University or campus foundations.

Federal refundable loans. Certain loans to students are administered by the University with funding primarily supported by the federal government. The University's statement of net 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 self-insured or supplementally insured coverage for each program in any 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 reviewed 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, 2017 and 2016 reducing the pollution remediation liability.

Deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources and deferred inflows of resources represent a consumption and acquisition of net position that apply to a future period, respectively. The University classifies gains on refunding 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 shorter of the remaining life of the old or new debt.

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 and net retiree health benefit liability not included in pension expense and retiree health benefits expense, respectively, are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension and retiree health liabilities 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 campus foundations 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 campus foundations, is 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 campus foundations is subject to externally imposed restrictions that can be fulfilled by actions of the University or campus foundations pursuant to those restrictions or that expire by the passage of time is classified as expendable net position.

Unrestricted. The net position that is not subject to externally imposed restrictions governing its use is classified as unrestricted net position. The University's unrestricted net position may be designated for specific purposes by management or The Regents. The campus foundations' 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.

Restricted or unrestricted resources are spent based upon a variety of factors, including funding restrictions, 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. Unrestricted net position is negative due primarily to liabilities for pension and retiree health benefits exceeding University assets available to pay such obligations.

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 (or depreciation) 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 as follows:

<i>(in thousands of dollars)</i>	2017	2016
Student tuition and fees	\$1,129,720	\$1,124,296
Auxiliary enterprises	185,038	215,049
Other operating revenues	29,654	26,408
Scholarship allowances	\$1,344,412	\$1,365,753

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, retirement or other specific operating purposes are reported as operating expenses. 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, 2017, the facilities and administrative cost recovery totaled \$1.1 billion, which consisted of \$764.0 million from federally sponsored programs and \$312.3 million from other sponsors. For the year ended June 30, 2016, the facilities and administrative cost recovery totaled \$1.0 billion, which consisted of \$745.6 million from federally sponsored programs and \$279.4 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.

Net pension liability. The University records net pension liability 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 plans' fiduciary net positions. 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 based upon rates authorized by The Regents and is reimbursed by the DOE. 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 revenue in the statement of revenues, expenses and changes in net position.

Retiree health benefits and liability. The University's net retiree health benefits liability is measured as the total retiree health benefits liability, less the amount of the University of California Retiree Health Benefit Trust (UCRHBT) fiduciary net position. The fiduciary net position and changes in net position of UCRHBT has been measured consistent with the accounting policies used by the trust. The total retiree health benefits liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the health benefit trust'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.

Expense for retiree health benefits 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 retiree health benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

LBNL participates in the University's retiree health plans. The net retiree health benefits liability for LBNL is determined independently from the University's campuses and medical centers. Retiree health benefits expense for LBNL is included with the DOE laboratory expense in the statement of revenues, expenses and changes in net position. The contributions from the DOE are 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 net retiree health benefits liability attributable to LBNL. The University does not have any retiree health benefits liability 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. 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 IRC Section 501(c)(3). CHRCO and its component unit, the Children's Hospital and Research Center Foundation, are exempt under IRC Section 501(c)(3). Income received by UCRHBT is tax-exempt under IRC 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.

New accounting pronouncements. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the University's fiscal year beginning July 1, 2017. This statement addresses when Irrevocable Split-Interest Agreements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The Statement also provides expanded guidance for circumstances in which the government holds the assets. The University is evaluating the effect that Statement No. 81 will have on its financial statements.

In December 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for the University's fiscal year beginning July 1, 2018. This Statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. The Statement requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflow of resources associated with an asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. Disclosure requirements include a general description of the asset retirement obligation and

associated tangible capital assets, the source of the obligation to retire the assets, the methods and assumptions used to measure the liability, and other relevant information. The University is evaluating the effect that Statement No. 83 will have on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for the University's fiscal year beginning July 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The University is evaluating the effect that Statement No. 84 will have on its financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, effective for the University's fiscal year beginning July 1, 2017. The Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application and post-employment benefits. The University is evaluating the effect Statement No. 85 will have on its financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the University's fiscal year beginning July 1, 2017. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with resources other than the proceeds of the refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this Statement revises existing standards for prepaid insurance associated with extinguished debt. The University is evaluating the effect Statement No. 86 will have on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for the University's fiscal year beginning July 1, 2020. This Statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single-approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. The University is evaluating the effect Statement No. 87 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. Ratings for one of the University's banks are below these thresholds. This institution has deposited funds in excess of the bank balances as of June 30, 2017 as collateral for the University's deposits in the state of California agency pool. At June 30, 2017 and 2016, the carrying amount of the University's demand deposits, generally held in five nationally recognized banking institutions, was \$203.4 million and \$266.6 million, respectively, compared to bank balances of \$159.7 million and \$230.5 million, 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 \$6.7 million at June 30, 2017 and \$5.1 million at June 30, 2016.

The carrying amount of the campus foundations' cash and cash equivalents at June 30, 2017 and 2016 was \$254.1 million and \$194.9 million, respectively, compared to bank balances of \$94.3 million and \$162.9 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 \$157.6 million at June 30, 2017 and \$29.9 million at June 30, 2016, with the remaining uncollateralized bank balances insured by the Federal Deposit Insurance Corporation (FDIC). Uncollateralized bank balances include \$6.5 million and \$6.7 million in excess of the FDIC limits at June 30, 2017 and 2016, respectively. The campus foundations do not have exposure to foreign currency risk in their cash and cash equivalents.

2. INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of the University's, UCRS' and UCRHBT's investments and establishes 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 Investments Subcommittee 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, fixed income and alternative investments.

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 are not managed by the Chief Investment Officer and totaled \$3.4 billion and \$2.8 billion at June 30, 2017 and 2016, 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 26 days and 28 days at June 30, 2017 and 2016, respectively. The fair values of UCRHBT's investment in this portfolio were \$97.8 million and \$53.6 million at June 30, 2017 and 2016, respectively. These are measured at net asset value as of June 30, 2017 and 2016, respectively.

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

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
<i>Equity securities:</i>						
Domestic	\$2,641,778	\$1,979,452	\$224,555	\$294,314	\$19,308,688	\$15,490,564
Foreign	2,322,774	1,306,340	26,056	24,487	10,124,433	7,855,227
Equity securities	4,964,552	3,285,792	250,611	318,801	29,433,121	23,345,791
<i>Fixed- or variable-income securities:</i>						
U.S. government-guaranteed:						
U.S. Treasury bills, notes and bonds	1,342,026	443,380	380,834	299,286	1,819,707	1,886,713
U.S. Treasury strips	370,436	292,098	215	235	900,066	568,605
U.S. TIPS	379,808	315,226			2,422,599	2,655,968
U.S. government-backed securities			24	42		
U.S. government-backed - asset-backed securities	13,695	20,749	991	1,240	10,146	8,253
U.S. government-guaranteed	2,105,965	1,071,453	382,064	300,803	5,152,518	5,119,539
Other U.S. dollar-denominated:						
Corporate bonds	7,945,898	4,659,480	28,301	27,170	4,750,525	4,155,499
Commercial paper	63,553	2,812,619			918,088	143,139
U.S. agencies	1,408,734	1,946,581		300	4,155,225	4,256,013
U.S. agencies - asset-backed securities	671,434	532,609	48,264	55,592	3,323,667	2,814,309
Corporate - asset-backed securities	504,652	386,261	49,518	52,182	1,607,426	1,636,572
Supranational/foreign	1,026,235	1,301,968	5,492	7,755	2,544,718	1,961,695
Other	120,314	66,731	1,478	814	26,996	28,382
Other U.S. dollar-denominated	11,740,820	11,706,249	133,053	143,813	17,326,645	14,995,609
Foreign currency-denominated:						
Corporate						3,890
Foreign currency-denominated						3,890
<i>Commingled funds:</i>						
Absolute return funds	3,962,553	3,168,124	2,177,012	1,878,461	4,987,355	4,626,070
Non-U.S. equity funds	2,077,584	2,883,950	991,267	838,113	9,264,782	7,502,378
Private equity	1,388,163	1,180,827	708,680	621,712	2,939,524	2,822,693
Money market funds	814,888	505,489	935,429	754,942	5,020,007	4,589,358
U.S. equity funds	145,967	507,587	664,627	574,231	2,341,302	3,281,925
Real estate investment trusts	460,025	9,439	150,846	95,519	1,633,123	515,960
Real assets	206,076	182,861			866,245	960,923
U.S. bond funds	218,839	32,747	131,541	109,386	1,055,611	1,677,872
Non-U.S. bond funds	132,608	44,720	16,433	29,452	15	
Balanced funds	212,079	182,516	1,222,549	1,051,146		
Commingled funds	9,618,782	8,698,260	6,998,384	5,952,962	28,107,964	25,977,179
Investment derivatives	(241)	8,227	1,995	2,776	(3,002)	25,921
Publicly traded real estate investment trusts	152,636	100,606			722,541	750,056
Mortgage loans	358,890	319,038				
Real estate	354,597	937,421	119,516	116,536	1,834,232	2,978,950
Other investments	12,390	13,786	321,367	279,587		
Campus foundations' investments with the University	(2,151,497)	(1,604,216)				
UCRS investment in the STIP	(2,678,532)	(2,327,849)				
Total investments	24,478,362	22,208,767	8,206,990	7,115,278	\$82,574,019	\$73,196,935
Less: Current portion	(6,249,657)	(4,944,611)	(674,868)	(479,410)		
Noncurrent portion	\$18,228,705	\$17,264,156	\$7,532,122	\$6,635,868		

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 the possibility 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.

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 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.

The core fixed-income benchmark for UCRS, GEP and TRIP is the Barclays Capital US Aggregate Bond Index, comprised of 25.3 percent corporate bonds and 30.5 percent mortgage/asset-backed bonds, all of which carry some degree of credit risk. The remaining 44.2 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 15 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		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
<i>Fixed- or variable-income securities:</i>						
U.S. government-guaranteed	\$2,105,965	\$1,071,453	\$382,064	\$300,803	\$5,152,518	\$5,119,539
<i>Other U.S. dollar-denominated:</i>						
AAA	394,656	293,301	12,538	14,341	1,465,322	1,176,010
AA	1,284,954	930,816	37,676	39,837	3,390,694	3,419,468
A	1,294,567	1,894,608	3,781	5,289	1,243,993	1,040,084
BBB	2,068,030	2,737,919	23,963	20,048	2,946,777	2,606,436
BB	450,708	562,163	2,095	3,259	1,242,851	1,192,376
B	296,788	254,948	3,088	4,945	1,057,297	872,055
CCC or below	42,151	55,117	19,898	24,023	192,950	358,512
A-1 / P-1 / F-1		12,536				1,949
Not rated	5,908,966	4,964,841	30,014	32,071	5,786,761	4,328,719
<i>Foreign currency-denominated:</i>						
Not rated						3,890
<i>Commingled funds:</i>						
U.S. bond funds: Not rated	218,839	32,747	131,541	109,386	1,055,611	1,677,872
Non-U.S. bond funds: Not rated	132,608	44,720	16,433	29,452	15	
Money market funds: Not rated	814,888	505,489	935,429	754,942	5,020,007	4,589,358
<i>Mortgage loans: Not rated</i>	358,890	319,038				

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, campus foundations' 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 is 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 campus foundation 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 campus foundations are not subject to concentration of credit risk. Most of the campus foundations 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 by the respective foundation at June 30 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2017	2016
Bayside Partners, LP	\$88,257	\$91,295

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, UCRS and GEP limit weighted average effective duration to the effective duration of the benchmarks (Barclays 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 being 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		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
<i>Fixed- or variable-income securities:</i>						
<i>U.S. government-guaranteed:</i>						
U.S. Treasury bills, notes and bonds	3.1	1.2	2.8	3.0	2.9	1.7
U.S. Treasury strips	11.7	7.5	18.1	19.3	10.6	7.8
U.S. TIPS	2.9	4.7			3.8	4.7
<i>U.S. government-backed securities</i>						
U.S. government-backed - asset-backed securities	2.3	1.5	1.8	0.7	3.1	1.9
<i>Other U.S. dollar-denominated:</i>						
Corporate bonds	2.8	2.9	2.4	2.8	6.1	6.1
U.S. agencies	2.6	2.1		7.3	2.1	1.7
U.S. agencies - asset-backed securities	3.9	2.9	4.2	3.8	3.7	2.5
Corporate - asset-backed securities	4.2	4.5	2.1	0.4	2.5	2.5
Supranational/foreign	3.2	2.9	3.8	2.7	5.8	5.8
Other	16.9	17.4	1.8	2.8	15.7	16.2
<i>Foreign currency-denominated:</i>						
Corporate		7.8				4.3
<i>Commingled funds:</i>						
U.S. bond funds*	2.5	4.1	4.8	4.8	1.9	3.7
Non-U.S. bond funds	3.2	7.2	6.9	6.0	7.0	
Money market funds**			1.5	1.3		

*The 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		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
Mortgage-backed securities	\$581,019	\$635,961	\$62,552	\$50,366	\$3,094,839	\$3,076,953
Collateralized mortgage obligations	142,379	173,385	17,079	32,583	308,119	507,526
Other asset-backed securities	147,305	92,843	14,889	21,758	928,928	718,940
Variable-rate securities	401,499	59,738			1,674,974	69,273
Callable bonds	2,773,741	1,892,892			8,281,157	5,882,116
Convertible bonds	317				2,529	
Total	\$4,046,260	\$2,854,819	\$94,520	\$104,707	\$14,290,546	\$10,254,808

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		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
Mortgage-backed securities	4.0	4.0	4.5	3.8	3.8	2.8
Collateralized mortgage obligations	2.7	2.4	12.5	1.1	2.7	2.2
Other asset-backed securities	1.5	2.2	5.1	(0.4)	1.0	1.4
Variable-rate securities	1.9	1.8			1.1	3.0
Callable bonds	3.4	3.7			4.0	3.8
Convertible bonds	2.6				2.5	

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		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
<i>Equity securities:</i>						
Euro	\$759,929	\$361,718	\$769		\$2,986,605	\$2,175,068
British Pound	262,100	244,974	1,474	\$1,388	1,499,151	1,473,068
Japanese Yen	369,665	215,890			1,550,471	1,298,182
Canadian Dollar	144,272	77,602	6,248	7,556	633,561	466,630
Swiss Franc	124,593	96,146	531		663,977	578,144
Australian Dollar	103,068	57,003	569	46	430,715	342,768
Hong Kong Dollar	128,176	27,517			307,976	165,462
Swedish Krona	69,605	33,033			263,079	198,633
Singapore Dollar	19,405	10,836			81,366	65,158
Danish Krone	23,677	14,184			142,740	85,287
Norwegian Krone	11,842	8,340			57,344	50,152
South Korean Won	84,359	48,976	16,356	14,140	473,711	294,499
Brazilian Real	25,154				29,725	
Indian Rupee		25,057			256,239	150,671
New Taiwan Dollar	69,843	20,720			204,806	124,590
South African Rand	31,699				147,473	
Thailand Baht	10,014				115,393	
Other	85,373	64,344	109	1,357	280,101	386,915
Subtotal	2,322,774	1,306,340	26,056	24,487	10,124,433	7,855,227
<i>Fixed-income securities:</i>						
Euro						1,779
Other						2,111
Subtotal						3,890
<i>Commingled funds (various currency denominations):</i>						
Absolute return funds			706,875			
Non-U.S. equity funds	2,077,584	2,883,950	919,576	547,487	9,264,782	7,502,378
Private equity	1,029		64,435	53,542	114,400	115,477
Real estate investment trusts			80,769	17,103		
Real assets	14,304	9,145	49,514		81,055	51,820
Non U.S. bond funds	132,608	44,720	16,434	3,229	15	
Balanced funds			129,917	238,192		
Subtotal	2,225,525	2,937,815	1,967,520	859,553	9,460,252	7,669,675
<i>Investment derivatives:</i>						
Australian Dollar	5	1,439			(10)	64
Canadian Dollar	(3)	33			(40)	266
British Pound	(10)	2,263			(244)	17,058
Japanese Yen	(52)	(893)			(584)	64
Hong Kong Dollar		(2,142)			(7)	203
Other	85	259			(103)	1,219
Subtotal	25	959			(988)	18,874
<i>Publicly traded real estate investment trusts:</i>						
Australian Dollar	10,092	6,562			44,367	44,160
Euro	9,243	5,851			42,055	39,377
British Pound	7,163	4,106			30,546	27,632
Japanese Yen	9,295	4,388			29,856	29,527
South African Rand	2,578	1,097			10,100	7,381
Singapore Dollar	4,139	810			12,441	5,454
Canadian Dollar	1,724	881			6,342	5,927
Mexican Peso	952	446			3,047	3,004
Other	2,386	559			5,913	3,764
Subtotal	47,572	24,700			184,667	281,703
Total exposure to foreign currency risk	\$4,595,896	\$4,269,814	\$1,993,576	\$884,040	\$19,768,364	\$15,713,892

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		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
Absolute return funds	\$3,962,553	\$3,168,124	\$2,177,012	\$1,878,461	\$4,987,355	\$4,626,070
Private equity funds	1,388,163	1,180,827	708,680	621,712	2,939,524	2,822,693
Real estate funds	354,597	937,421	119,516	116,536	1,834,232	2,978,950
Real estate investment trusts	460,025	9,439	150,846	95,519	1,633,123	515,960
Real assets funds	206,076	182,861			866,245	960,923
Total	\$6,371,414	\$5,478,672	\$3,156,054	\$2,712,228	\$12,260,479	\$11,904,596

The University's Investment Pools

The composition of the University's investments at June 30, 2017, by investment pool, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					
	STIP	TRIP	GEP	OTHER	TOTAL	
<i>Equity securities:</i>						
Domestic		\$1,650,101	\$877,439	\$114,238	\$2,641,778	
Foreign		1,399,551	880,977	42,246	2,322,774	
<i>Fixed- or variable-income securities:</i>						
U.S. government-guaranteed		\$969,940	637,044	491,287	7,694	2,105,965
Other U.S. dollar-denominated		7,667,967	3,390,550	660,701	21,602	11,740,820
Commingled funds		68,175	1,711,540	6,605,800	1,233,267	9,618,782
Investment derivatives			(162)	(73)	(6)	(241)
Publicly traded real estate investment trusts			103,542	44,677	4,417	152,636
Mortgage loans		358,890				358,890
Real estate			137,615	177,927	39,055	354,597
Other investments				12,390	12,390	
Subtotal		9,064,972	9,029,781	9,738,735	1,474,903	29,308,391
Campus foundations' investments with the University		(1,048,911)	(26,701)	(918,008)	(157,877)	(2,151,497)
UCRS investment in the STIP		(2,678,532)				(2,678,532)
Total investments		\$5,337,529	\$9,003,080	\$8,820,727	\$1,317,026	\$24,478,362

The composition of the University's investments at June 30, 2016, by investment pool, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				
	STIP	TRIP	GEP	OTHER	TOTAL
<i>Equity securities:</i>					
Domestic		\$1,146,426	\$727,457	\$105,569	\$1,979,452
Foreign		545,738	725,650	34,952	1,306,340
<i>Fixed- or variable-income securities:</i>					
U.S. government-guaranteed	\$186,557	478,848	397,424	8,624	1,071,453
Other U.S. dollar-denominated	7,701,979	3,472,313	508,083	23,874	11,706,249
Commingled funds	94,408	2,590,458	5,775,631	237,763	8,698,260
Investment derivatives		28	8,176	23	8,227
Publicly traded real estate investment trusts		50,082	45,861	4,663	100,606
Mortgage loans	319,038				319,038
Real estate		373,354	528,850	35,217	937,421
Other investments				13,786	13,786
Subtotal	8,301,982	8,657,247	8,717,132	464,471	26,140,832
Campus foundations' investments with the University	(693,159)	(19,398)	(785,515)	(106,144)	(1,604,216)
UCRS investment in the STIP	(2,327,849)				(2,327,849)
Total investments	\$5,280,974	\$8,637,849	\$7,931,617	\$358,327	\$22,208,767

The total investment returns 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, 2017 and 2016, were 7.7 and 0.3 percent, respectively for TRIP, 15.1 and (3.5) percent, respectively for GEP and 14.5 and (2.0) 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 1.3 percent. Other investments consist of numerous, small portfolios of investment or individual securities, each with its own individual rate of return.

Related Party Relationships with the University

UCRS and campus foundations may invest available cash in STIP. Shares are purchased or redeemed in STIP at a constant value of \$1 per share. Actual income earned, including any realized gains or losses on the sale of STIP investments, is allocated to UCRS and campus foundations based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in STIP are recorded by the University 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 campus foundations may also 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 campus foundations based upon the number of shares held.

Campus Foundations

The campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are excluded from the University's statement of net position and included in the campus foundations' statement of net position. Under the accounting policies elected by each campus foundation, 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 campus foundations' investments managed by the Chief Investment Officer are categorized as commingled funds or commingled money market funds by the campus foundations in the composition of investments.

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

<i>(in thousands of dollars)</i>	2017	2016
STIP	\$1,048,910	\$693,159
TRIP	26,701	19,398
GEP	918,008	785,515
Other investment pools	157,878	106,144
Campus foundations' investments with the University	2,151,497	1,604,216
Classified as cash and cash equivalents by campus foundations	(154,662)	(28,183)
Classified as investments by campus foundations	\$1,996,835	\$1,576,033

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 campus foundations totaling \$21.9 million and \$18.3 million for the years ended June 30, 2017 and 2016, respectively.

UCRS

UCRS had \$2.7 billion and \$2.3 billion invested in STIP at June 30, 2017 and 2016, 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 \$31.2 million and \$30.1 million for the years ended June 30, 2017 and 2016, 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:

<i>(in thousands of dollars)</i>	2017	2016
<i>Short-term investments:</i>		
STIP	\$103,291	\$86,176
GEP	259,330	224,821
Other investment pools		16,432
Total agency assets	\$362,621	\$327,429
Funds held for others	\$362,621	\$327,429

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

<i>(in thousands of dollars)</i>	STIP		GEP	
	2017	2016	2017	2016
Investments	\$9,064,972	\$8,301,982	\$9,738,735	\$8,717,132
Investment of cash collateral	44,176	38,760	342,833	356,794
Securities lending collateral	(44,155)	(38,748)	(342,677)	(356,764)
Other assets, net	2,437,063	2,428,681	850,451	211,974
Net position	\$11,502,056	\$10,730,675	\$10,589,342	\$8,929,136

Other assets include amounts receivable for pension benefits from the campuses and medical centers of \$2.7 billion and \$2.3 billion at June 30, 2017 and 2016, respectively.

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

<i>(in thousands of dollars)</i>	STIP		GEP	
	2017	2016	2017	2016
Net position, beginning of year	\$10,730,675	\$12,258,256	\$8,929,136	\$8,921,362
Investment income	159,038	141,298	92,781	77,911
Net appreciation (depreciation) in fair value of investments	(28,695)	3,724	1,309,458	(382,996)
Transfer to TRIP	(60,000)	(1,768,504)		
Participant contributions (withdrawals), net	701,038	95,901	257,967	312,859
Net position, end of year	\$11,502,056	\$10,730,675	\$10,589,342	\$8,929,136

3. SECURITIES LENDING

The University and UCRS jointly participate in a securities lending program as a means to augment income. The campus foundations' 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, 2017 and 2016, the securities in these pools had a weighted average maturity of 20 days and 34 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, 2017 and 2016, 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		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
SECURITIES LENT						
<i>For cash collateral:</i>						
Equity securities:						
Domestic	\$522,489	\$428,032			\$2,789,711	\$3,910,177
Foreign	40,881	35,420			129,824	124,796
Fixed-income securities:						
U.S. government-guaranteed	73,204	120,898			803,431	990,162
Other U.S. dollar-denominated	449,910	270,848			2,856,772	1,639,228
Foreign currency-denominated	11,173				109,797	
Foundations' share	(42,581)	(41,973)	\$42,581	\$41,973		
Lent for cash collateral	1,055,076	813,225	42,581	41,973	6,689,535	6,664,363
<i>For securities collateral:</i>						
Equity securities:						
Domestic	444,681	215,992			3,025,219	1,823,980
Foreign	271,071	148,851			826,781	667,413
Fixed-income securities:						
U.S. government-guaranteed	164,400	111,328			2,132,793	2,526,750
Other U.S. dollar-denominated	77,881	134,092			505,610	510,090
Foreign currency-denominated	1,959				15,081	
Lent for securities collateral	959,992	610,263			6,505,484	5,528,233
Total securities lent	\$2,015,068	\$1,423,488	\$42,581	\$41,973	\$13,195,019	\$12,192,596
COLLATERAL RECEIVED						
Cash	\$1,121,899	\$866,650			\$6,838,416	\$6,749,519
Foundations' share	(42,581)	(41,973)	\$42,581	\$41,973		
Total cash collateral received	1,079,318	824,677	\$42,581	41,973	6,838,416	6,749,519
Securities	1,032,497	655,859			6,992,564	5,941,271
Total collateral received	\$2,111,815	\$1,480,536	\$42,581	\$41,973	\$13,830,980	\$12,690,790
INVESTMENT OF CASH COLLATERAL						
<i>Fixed-income securities:</i>						
Other U.S. dollar-denominated:						
Corporate bonds	\$105,460	\$105,385			\$642,818	\$820,737
Commercial paper	77,753				473,932	
Repurchase agreements	309,356	194,582			1,885,644	1,515,418
Corporate - asset-backed securities	28,855	71,220			175,884	554,664
Certificates of deposit/time deposits	542,834	459,963			3,308,794	3,582,215
Supranational/foreign	58,751	35,716			358,112	278,161
Other assets (liabilities), net*	(599)	38			(3,654)	297
Foundations' share	(42,581)	(41,973)	\$42,581	\$41,973		
Investment of cash collateral	1,079,829	824,931	\$42,581	41,973	\$6,841,530	\$6,751,492
Less: Current portion	(947,353)	(680,838)	(37,357)	(34,641)		
Noncurrent portion	\$132,476	\$144,093	\$5,224	\$7,332		

* 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 year ended June 30 are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
Securities lending income	\$15,628	\$8,840	\$771	\$581	\$89,075	\$60,415
Securities lending fees and rebates	(7,124)	(2,558)	(352)	(166)	(40,610)	(16,440)
Securities lending investment income, net	\$8,504	\$6,282	\$419	\$415	\$48,465	\$43,975

Investment Risk Factors

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

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

Credit Risk

The University's and UCRS' investment policies for the investment of cash collateral maintained in separately managed collateral pools restrict the credit rating of issuers 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:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
<i>Fixed- or variable-income securities:</i>						
Other U.S. dollar-denominated:						
AAA	\$84,224	\$89,504			\$513,378	\$697,065
AA+		19,936				155,262
AA-	146,141	104,931			890,788	817,206
A+	130,473	145,590			795,284	1,133,866
A	123,225	61,267			751,104	477,147
A-	50,772	37,911			309,473	295,251
A-1 / A-2 / P-1 / F-1	278,819	213,144			1,699,513	1,659,981
Not rated						
Other assets (liabilities) net*: Not rated	(599)	38			(3,654)	297
Campus foundations' share	(42,581)	(41,973)	42,581	41,973		

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

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the University's lending agents. The University's 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. Campus foundations that directly participate in a securities lending program do not have specific investment policies related to concentration of credit risk, although the lending agreements with the agents establish restrictions for the type of investments and minimum credit ratings.

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

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016
Goldman Sachs & Company	\$63,421		\$386,579	
Svenska Handelsbanken AB		\$56,331		\$438,705
Morgan Stanley & Co LLC	84,562		515,438	

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:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016
<i>Fixed- or variable-income securities:</i>				
<i>Other U.S. dollar-denominated:</i>				
Corporate bonds	38	44	38	44
Commercial paper	19		19	
Repurchase agreements	9	8	9	8
Corporate-asset-backed securities	97	18	97	18
Certificates of deposit/time deposits	19	46	19	46
Supranational/foreign	17	26	17	26

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:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
Other asset-backed securities	\$87,606	\$89,504			\$533,996	\$697,064
Variable-rate investments	802,491	536,906			4,891,500	4,181,454
Campus foundations' share	(33,767)	(31,125)	\$33,767	\$31,125		
Total	\$856,330	\$595,285	\$33,767	\$31,125	\$5,425,496	\$4,878,518

At June 30, 2017 and 2016, the weighted average maturity expressed in days for asset-backed securities was 43 days and 18 days, respectively and for variable-rate investments was 19 days and 23 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 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 \$79.0 million and \$40.0 million at June 30, 2017 and 2016, respectively.

In August 2016, the University replaced the counterparty for certain of its interest rate swap agreements and discontinued hedge accounting on interest rate swaps with a notional value of \$174.8 million. The University recognized a decrease in net position upon hedge termination of \$41.2 million on the statement of revenues, expenses and changes in net position. The University determined that the interest rate swap agreements with the new counterparty are derivative instruments that meet the criteria for an effective hedge. These interest rate swaps are considered hybrid instruments since, at the time of execution, the University received an up-front payment of \$82.5 million. As such, the swaps consist of an at-the-market swap derivative instrument and a borrowing, represented by the up-front payment.

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 are as follows:

University of California

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT		FAIR VALUE-POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
	2017	2016	CLASSIFICATION	2017	2016	CLASSIFICATION	2017	2016
INVESTMENT DERIVATIVES								
<i>Futures contracts:</i>								
<i>Domestic equity futures:</i>								
Long positions	\$21	\$267	Investments	\$(360)	\$7,256	Net appreciation (depreciation)	\$(361)	\$24,093
Short positions			Investments			Net appreciation (depreciation)		(2)
<i>Foreign futures:</i>								
Long positions	78	82	Investments	(47)	714	Net appreciation (depreciation)	7,998	(7,560)
Short positions		(13,377)	Investments		7,982	Net appreciation (depreciation)	(17,090)	12,942
Futures contracts, net				(407)	15,952		(9,453)	29,473
<i>Foreign currency exchange contracts, net*:</i>								
Long positions	217,069	242,859	Investments	(46)	742	Net appreciation (depreciation)	6,800	2,430
Short positions		(18,428,479)	Investments		(8,576)	Net appreciation (depreciation)	15,053	(10,835)
Futures currency exchange contracts, net				(46)	(7,834)		21,853	(8,405)
<i>Swaps:</i>								
Credit default swaps			Investments			Net appreciation (depreciation)		(2)
Fixed interest rate swaps			Investments			Net appreciation (depreciation)		10
Swaps, net								8
<i>Other:</i>								
Stock rights/warrants	680	710	Investments	212	109	Net appreciation (depreciation)	22	248
Other, net				212	109		22	248
Total investment derivatives				\$(241)	\$8,227		\$12,422	\$21,324
CASH FLOW HEDGES								
<i>Effective interest rate swaps:</i>								
Pay fixed, receive variable	\$842,315	\$845,655	Other assets (liabilities)	\$(90,232)	\$(152,123)	Deferred (inflows) outflows	\$61,891	\$(61,030)

*Notional amount reported in local currency.

University of California Campus Foundations

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT		FAIR VALUE-POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
	2017	2016	CLASSIFICATION	2017	2016	CLASSIFICATION	2017	2016
INVESTMENT DERIVATIVES								
Options/swaptions		\$6,902	Investments	\$7	\$247	Net appreciation (depreciation)		\$247
Swaps	\$226,752	179,812		1,988	2,529		\$32,340	2,529
Total investment derivatives				\$1,995	\$2,776		\$32,340	\$2,776

University of California Retirement System

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT		FAIR VALUE-POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
	2017	2016	CLASSIFICATION	2017	2016	CLASSIFICATION	2017	2016
INVESTMENT DERIVATIVES								
<i>Futures contracts:</i>								
<i>Domestic equity futures:</i>								
Long positions	\$8,687	\$195	Investments	\$(2,323)	\$6,886	Net appreciation (depreciation)	\$(2,323)	\$50,218
Short positions	(17,400)	(8,312)	Investments	(19)	133	Net appreciation (depreciation)	(19)	229
<i>Foreign equity futures:</i>								
Long positions	1,236	25,039	Investments	(1,060)	(15,237)	Net appreciation (depreciation)	126,127	(43,302)
Short positions			Investments			Net appreciation (depreciation)	(10,495)	(328)
Futures contracts, net				(3,402)	(8,218)		113,290	6,817
<i>Foreign currency exchange contracts, net*:</i>								
Long positions	2,482,250	34,426,314	Investments	(528)	16,277	Net appreciation (depreciation)	26,347	(19,710)
Short positions	(1,611)	(4,500,715)	Investments	(26)	17,189	Net appreciation (depreciation)	55,504	127,570
Foreign currency exchange contracts, net				(554)	33,466		81,851	107,860
<i>Swaps:</i>								
Credit default swaps			Investments			Net appreciation (depreciation)		(37)
Swaps, net								(37)
<i>Other:</i>								
Stock rights/warrants	1,583	4,704	Investments	954	673	Net appreciation (depreciation)	(33)	284
Options/swaptions			Investments			Net appreciation (depreciation)		1
Other, net				954	673		(33)	285
Total investment derivatives				\$(3,002)	\$25,921		\$195,108	\$114,925

*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	
		2017	2016						2017	2016
UNIVERSITY OF CALIFORNIA										
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	\$67,540	\$70,880	2007	2032	None	Pay fixed 3.5897%; receive 58% of 1-Month LIBOR* plus 0.48%	A1/A+	\$(9,423)	\$(14,188)
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%**	Aa2/AA-	(40,420)	(57,603)
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-	(12,552)	(32,588)
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-	(3,182)	(8,199)
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-	(3,137)	(8,146)
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%	Aa2/AA-	(10,252)	(14,901)
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%	Aa2/AA-	(11,266)	(16,498)
Interest rate swaps, net		\$842,315	\$845,655						\$(90,232)	\$(152,123)

* 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 \$67.5 million notional amount. Depending on the fair value and the counterparty credit rating for the swaps related to the Medical Center Pooled Revenue Bonds with the counterparty that is currently rated Aa2/AA- with a combined notional amount of \$174.8 million, the University may be entitled to receive collateral to the extent the positive fair value exceeds \$30.0 million. At June 30, 2017 and 2016, there was no collateral required.

Depending on the fair value and the counterparty credit rating for the swaps related to the General Revenue Bonds with the two counterparties that are currently rated Aa2/AA- with a combined notional amount of \$600.0 million, the University may be entitled to receive collateral to the extent the positive fair value with each counterparty exceeds \$30.0 million. At June 30, 2017 and 2016, 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 swap with the \$67.5 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 swaps with the combined \$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. FAIR VALUE

Fair value is defined in the accounting standards 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. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities and other publicly traded securities.

Level 2 – Quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include fixed- or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV include hedge funds, private equity investments and commingled funds.

Not Leveled – Cash and cash equivalents are not measured at fair value and, thus, are not subject to the fair value disclosure requirements.

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2017:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs	Net Asset Value	Not Leveled
		(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$4,964,552	\$4,875,376		\$22,941	\$66,235	
Fixed- or variable-income securities:						
U.S. government-guaranteed	2,105,965		\$2,105,965			
Other U.S. dollar-denominated	11,740,820		11,617,785	123,035		
Commingled funds	9,618,782	981,669	106	393,441	8,242,947	\$619
Investment derivatives	(241)	(195)	(46)			
Publicly traded real estate investment trusts	152,636	152,636				
Mortgage loans	358,890			358,890		
Real estate	354,597			42,817	311,780	
Other investments	12,390			12,390		
Campus foundations' investments with the University	(2,151,497)					(2,151,497)
UCRS investment in STIP	(2,678,532)					(2,678,532)
Total investments	\$24,478,362	\$6,009,486	\$13,723,810	\$953,514	\$8,620,962	\$(4,829,410)
Securities lending investments of cash collateral	\$1,079,829		\$1,080,405			\$(576)
Investments held by trustees	\$99,025				\$60,194	\$38,831

(in thousands of dollars)

	CAMPUS FOUNDATIONS					
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs	Net Asset Value	Not Levelled
		(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$250,611	\$235,916	\$4,103	\$10,575	\$17	
Fixed- or variable-income securities:						
U.S. government-guaranteed	382,064		382,064			
Other U.S. dollar-denominated	133,053	654	132,344	55		
Commingled funds	6,998,384	650,644	389	1,330	6,322,655	\$23,366
Investment derivatives	1,995		1,995			
Real estate	119,516		3,819	49,569	66,128	
Other investments	321,367	7,151		158,326	153,702	2,188
Total investments	\$8,206,990	\$894,365	\$524,714	\$219,855	\$6,542,502	\$25,554
Securities lending investments of cash collateral	\$42,581		\$39,280	\$3,324		(\$23)

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs	Net Asset Value	Not Levelled
		(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$29,433,121	\$28,589,132		\$1,181	\$842,808	
Fixed- or variable-income securities:						
U.S. government-guaranteed	5,152,518		\$5,152,518			
Other U.S. dollar-denominated	17,326,645		17,275,601	51,044		
Foreign currency-denominated						
Commingled funds	28,107,964	3,676,570	1,898	275,890	24,153,119	\$487
Investment derivatives	(3,002)	(2,448)	(554)			
Publicly traded real estate investment trusts	722,541	722,541				
Real estate	1,834,232			10,096	1,824,136	
Total investments	\$82,574,019	\$32,985,795	\$22,429,463	\$338,211	\$26,820,063	\$487
Securities lending investments of cash collateral	\$6,841,530		\$6,845,184			\$(3,654)

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2016:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs	Net Asset Value	Not Levelled
		(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$3,285,792	\$3,274,412		\$11,380		
Fixed- or variable-income securities:						
U.S. government-guaranteed	1,071,453		\$1,071,453			
Other U.S. dollar-denominated	11,706,249		11,637,569	68,680		
Commingled funds	8,698,260	562,933	21,572	93,043	\$8,020,610	\$102
Investment derivatives	8,227	16,060	(7,833)			
Publicly traded real estate investment trusts	100,606	100,606				
Mortgage loans	319,038			319,038		
Real estate	937,421			406,144	531,277	
Other investments	13,786			13,786		
Campus foundations' investments with the University	(1,604,216)					(1,604,216)
UCRS investment in STIP	(2,327,849)					(2,327,849)
Total investments	\$22,208,767	\$3,954,011	\$12,722,761	\$912,071	\$8,551,887	\$(3,931,963)
Securities lending investments of cash collateral	\$824,931		\$739,724	\$85,171		\$36
Investments held by trustees	\$850,884	\$54,769		\$5,642	\$752,618	\$37,855

(in thousands of dollars)

	CAMPUS FOUNDATIONS					
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs	Net Asset Value	Not Levelled
		(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$318,801	\$305,930	\$4,389	\$7,848	\$36	\$598
Fixed- or variable-income securities:						
U.S. government-guaranteed	300,803	18	300,785			
Other U.S. dollar-denominated	143,813	571	143,218	24		
Commingled funds	5,952,962	575,831	386	995	5,312,341	63,409
Investment derivatives	2,776		2,776			
Real estate	116,536		3,750	48,707	64,079	
Other investments	279,587	4,854		162,396	110,109	2,228
Total investments	\$7,115,278	\$887,204	\$455,304	\$219,970	\$5,486,565	\$66,235
Securities lending investments of cash collateral	\$41,973		\$37,638	\$4,333		\$2

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs	Net Asset Value	Not Levelled
		(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	\$23,345,791	\$23,344,616		\$1,175		
Fixed- or variable-income securities:						
U.S. government-guaranteed	5,119,539		\$5,119,539			
Other U.S. dollar-denominated	14,995,609		14,945,410	50,199		
Foreign currency-denominated	3,890		3,890			
Commingled funds	25,977,179	3,320,189	106,834	638,169	\$21,874,071	\$37,916
Investment derivatives	25,921	(7,545)	33,466			
Publicly traded real estate investment trusts	750,056	750,056				
Real estate	2,978,950			1,600,803	1,378,147	
Total investments	\$73,196,935	\$27,407,316	\$20,209,139	\$2,290,346	\$23,252,218	\$37,916
Securities lending investments of cash collateral	\$6,751,492		\$6,054,131	\$697,064		\$297

The following table presents significant terms of certain investments at June 30, 2017:

(in thousands of dollars)

Investment Type	UNIVERSITY OF CALIFORNIA			
	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	\$3,962,553	\$254,289	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equities	1,388,163	519,934	0 to 15	Not eligible for redemption.
Real assets	206,073	181,955	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	814,622	126,867	0 to 6	Not eligible for redemption.
Fixed Income - Other	120,314	6,867	1 to 7	Not eligible for redemption.

(in thousands of dollars)

Investment Type	CAMPUS FOUNDATIONS			
	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	\$1,618,201	\$47,804	0 to 5	Generally, lock up provisions ranging from 0 to 5 years. After initial lock-up expires, redemptions are available on a rolling basis and require 30 to 180 days' prior notification.
Private equities	704,267	451,642	0 to 15	Generally, lock up provisions ranging from 0 to 14 years. After initial lock-up expires, redemptions are available on a rolling basis and require 30 to 180 days' prior notification.
Real assets	152,973	35,386	9	Not eligible for redemption.
Real estate and real estate investment trusts	132,043	83,055	0 to 11	Not eligible for redemption.

(in thousands of dollars)

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM				
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	\$4,987,355	\$395,672	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equities	2,939,524	1,152,374	0 to 15	Not eligible for redemption.
Real assets	866,245	389,735	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	3,467,355	355,043	1 to 7	Not eligible for redemption.

The following table presents significant terms of certain investments at June 30, 2016:

(in thousands of dollars)

UNIVERSITY OF CALIFORNIA				
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	\$3,168,124	\$1,953	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equities	1,180,827	431,059	0 to 15	Not eligible for redemption.
Real assets	182,861	79,207	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	937,421	124,673	0 to 6	Not eligible for redemption.
Fixed Income - Other	66,731	49,739	1 to 7	Not eligible for redemption.

(in thousands of dollars)

CAMPUS FOUNDATIONS				
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	\$1,779,453		0 to 5	Generally, lock-up provisions range from 0 to 5 years. After initial lock-up expires, redemptions are available and require 30 to 180 days' prior notification. Certain securities can only be sold to a Goldman Sachs approved bidder.
Private equities	621,280	\$337,583	0 to 15	Generally, lock-up provisions range from 0 to 14 years. After initial lock-up expires, redemptions are available and require 30 days' prior notification. Certain securities can only be sold to a Goldman Sachs approved bidder.
Real assets	109,389	12,900	9	Not eligible for redemption.
Real estate and real estate investment trusts	121,510	76,332	0 to 11	Not eligible for redemption.

(in thousands of dollars)

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM				
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	\$4,626,070	\$3,051	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equities	2,822,693	821,064	0 to 15	Not eligible for redemption.
Real assets	960,923	296,041	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	2,978,950	189,259	0 to 6	Not eligible for redemption.

6. 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

At June 30, 2017, investments of \$23.0 million were held by trustees for self-insurance programs included bank accounts for the workers' compensation, general liability and professional medical and hospital liability programs. Cash was held by the trustee in the name of the University.

At June 30, 2016, investments of \$758.3 million were held by trustees for self-insurance programs included separate trusts for the workers' compensation and professional medical and hospital liability programs. Securities were held by the trustees in the name of the University. In July 2016, the University liquidated investments held by trustees for self-insurance programs and transferred the funds to the captive insurance company.

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 \$6.7 million and \$22.8 million at June 30, 2017 and 2016, 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 \$5.0 million and \$8.5 million at June 30, 2017 and 2016, 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 and \$58.1 million at June 30, 2017 and 2016, respectively. Substantially, all of these investments are of a highly liquid, short-term nature.

7. ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible accounts are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA						TOTAL	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTERS	INVESTMENT INCOME	PRIVATE GRANTS AND CONTRACTS	MEDICAL PROFESSIONAL FEES	OTHER		
<i>At June 30, 2017</i>								
Accounts receivable	\$693,453	\$1,931,470	\$47,138	\$318,964	\$345,098	\$990,061	\$4,326,184	\$40,012
Allowance for uncollectible accounts	(2,658)	(223,461)		(26,219)	(95,163)	(31,792)	(379,293)	
Accounts receivable, net	\$690,795	\$1,708,009	\$47,138	\$292,745	\$249,935	\$958,269	\$3,946,891	\$40,012
<i>At June 30, 2016</i>								
Accounts receivable	\$589,875	\$1,859,862	\$53,426	\$372,664	\$268,573	\$488,019	\$3,632,419	\$32,562
Allowance for uncollectible accounts	(1,355)	(225,524)		(15,648)	(44,347)	(26,027)	(312,901)	
Accounts receivable, net	\$588,520	\$1,634,338	\$53,426	\$357,016	\$224,226	\$461,992	\$3,319,518	\$32,562

The University's other accounts receivable are primarily related to investment sales, tuition and fees, auxiliary enterprises, insurance rebates and legal settlements.

The campus foundations' accounts receivable are primarily related to investment income.

Uncollectible accounts have increased (decreased) the following revenues for the years ended June 30:

(in thousands of dollars)

	2017	2016
Student tuition and fees	\$(6,528)	\$(1,748)
Grants and contracts:		
Federal	(1,509)	928
State	25	329
Private	(11,515)	(11,519)
Local	32	144
Medical centers	(221,508)	(235,526)
Educational activities	(22,630)	(21,516)
Auxiliary enterprises	(1,441)	(796)
Other operating revenues	(1,357)	1,031
Expense for uncollectible accounts	\$(266,431)	\$(268,673)

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 each of the years ended June 30, 2017 and 2016, under the terms of these agreements, the state of California contributed \$5.3 million, including interest at 8.5 percent. At June 30, 2017 and 2016, the remaining amount owed to UCRP by the state was \$13.6 million and \$17.4 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.

8. PLEDGES RECEIVABLE

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

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2017	2016	2017	2016
Total pledges receivable outstanding	\$72,315	\$64,846	\$1,064,512	\$1,060,609
Less: Unamortized discount to present value	(896)	(1,384)	(137,406)	(145,318)
Allowance for uncollectible pledges	(15,207)	(16,356)	(61,127)	(72,868)
Total pledges receivable, net	56,212	47,106	865,979	842,423
Less: Current portion of pledges receivable	(23,181)	(17,056)	(192,484)	(217,971)
Noncurrent portion of pledges receivable	\$33,031	\$30,050	\$673,495	\$624,452

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2017 and thereafter are as follows:

(in thousands of dollars)

Year Ending June 30	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	2018	\$36,938
2019	14,057	152,818
2020	8,991	96,704
2021	8,709	87,958
2022	1,670	54,919
2023-2027	1,450	231,132
Beyond 2027	500	233,397
Total payments on pledges receivable	\$72,315	\$1,064,512

Adjustments to the allowance for uncollectible pledges for the University have increased (decreased) the following revenues for the years ended June 30, 2017 and 2016:

(in thousands of dollars)

	2017	2016
Private gifts	(863)	\$1,359
Capital gifts and grants	(25)	

9. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2017 and 2016 along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		
	CURRENT	NOTES	MORTGAGES	TOTAL	CURRENT	NONCURRENT	TOTAL
<i>At June 30, 2017</i>							
Notes and mortgages receivable	\$58,338	\$309,459	\$22,301	\$331,760	\$6	\$427	\$433
Allowance for uncollectible amounts	(8,201)	(17,621)	(121)	(17,742)			
Notes and mortgages receivable, net	\$50,137	\$291,838	\$22,180	\$314,018	\$6	\$427	\$433
<i>At June 30, 2016</i>							
Notes and mortgages receivable	\$60,931	\$320,523	\$24,411	\$344,934	\$6	\$1,014	\$1,020
Allowance for uncollectible amounts	(8,259)	(17,636)	(129)	(17,765)			
Notes and mortgages receivable, net	\$52,672	\$302,887	\$24,282	\$327,169	\$6	\$1,014	\$1,020

10. 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, 2017 and 2016, the University recorded \$13.5 million and \$11.8 million, respectively, as its equity in the current earnings of LANS and received \$17.6 million and \$10.5 million, respectively, 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 and 36.3 percent as of June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, the University recorded \$11.5 million and \$12.2 million, respectively, as its equity in the current earnings of LLNS and received \$11.1 million and \$11.6 million, respectively, in cash distributions.

11. CAPITAL ASSETS

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

(in thousands of dollars)

	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	\$972,954	\$191,276	\$(1,135)	\$1,163,095	\$9,551	\$(9,735)	\$1,162,911
Infrastructure	647,114	16,759		663,873	30,987		694,860
Buildings and improvements	33,751,460	1,732,566	(55,433)	35,428,593	2,604,022	(7,292)	38,025,323
Equipment, software and intangibles	6,963,627	574,325	(366,460)	7,171,492	696,869	(259,278)	7,609,083
Libraries and collections	3,931,840	152,265	(23,996)	4,060,109	154,873	(62,294)	4,152,688
Special collections	384,221	50,687	(170)	434,738	25,254	(36)	459,956
Construction in progress	2,826,673	238,356		3,065,029	(544,879)		2,520,150
Capital assets, at original cost	\$49,477,889	\$2,956,234	\$(447,194)	\$51,986,929	\$2,976,677	\$(338,635)	\$54,624,971
	2015	DEPRECIATION AND AMORTIZATION	DISPOSALS	2016	DEPRECIATION AND AMORTIZATION	DISPOSALS	2017
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	\$326,367	\$22,238		\$348,605	\$23,093		\$371,698
Buildings and improvements	13,101,858	1,083,003	\$(27,410)	14,157,451	1,167,408	\$(5,998)	15,318,861
Equipment, software and intangibles	4,527,627	567,743	(294,867)	4,800,503	588,597	(224,314)	5,164,786
Libraries and collections	2,879,258	131,062	(18,765)	2,991,555	130,772	(22,454)	3,099,873
Accumulated depreciation and amortization	20,835,110	\$1,804,046	\$(341,042)	22,298,114	\$1,909,870	\$(252,766)	23,955,218
Capital assets, net	\$28,642,779			\$29,688,815			\$30,669,753

Service concession arrangements, reported as buildings and improvements, are \$118.2 million of original cost and \$22.5 million of accumulated depreciation at June 30, 2017. Service concession arrangements, reported as buildings and improvements, are \$91.1 million of original cost and \$20.2 million of accumulated depreciation at June 30, 2016.

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

The University's self-insurance, obligations under life income agreements and other liabilities at June 30, 2017 and 2016 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	2017		2016		2017		2016	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Self-insurance programs	\$276,480	\$584,232	\$228,751	\$558,158				
Obligations under life income agreements	1,601	\$34,479	1,346	\$32,021	\$17,428	\$137,713	\$16,718	\$130,314
Other liabilities:								
Compensated absences	578,012	\$340,353	567,736	\$294,842				
UCRP*	4,157	9,400	3,833	13,558				
Accrued interest	107,672		95,860					
Fair value of interest rate swaps		90,232		152,123				
Other	625,375	248,817	541,001	276,832	28,042	\$253,288	35,157	\$220,234
Total	\$1,593,297	\$688,802	\$1,438,527	\$737,355	\$45,470	\$253,288	\$51,875	\$220,234

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

Self-Insurance Programs

Self-insured liabilities changed for self-insured as follows for the years ended June 30:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE & STUDENT HEALTH CARE	GENERAL LIABILITY AND OTHER	TOTAL
<i>Year Ended June 30, 2017</i>					
Liabilities at June 30, 2016	\$198,440	\$391,440	\$88,510	\$108,519	\$786,909
Claims incurred and changes in estimates	51,074	104,089	811,137	99,538	1,065,838
Claim payments	(56,359)	(86,522)	(809,469)	(39,685)	(992,035)
Liabilities at June 30, 2017	\$193,155	\$409,007	\$90,178	\$168,372	\$860,712
Discount rate	2.6% to 4.7%	2.6% to 4.7%	Undiscounted	2.6% to 4.7%	
<i>Year Ended June 30, 2016</i>					
Liabilities at June 30, 2015	\$187,236	\$353,138	\$75,433	\$94,481	\$710,288
Claims incurred and changes in estimates	73,520	119,972	666,442	41,190	901,124
Claim payments	(62,316)	(81,670)	(653,365)	(27,152)	(824,503)
Liabilities at June 30, 2016	\$198,440	\$391,440	\$88,510	\$108,519	\$786,909
Discount rate	5.0%	5.0%	Undiscounted	2.0%	
<i>Year Ended June 30, 2015</i>					
Liabilities at June 30, 2014	\$181,324	\$321,055	\$70,513	\$87,777	\$660,669
Claims incurred and changes in estimates	48,075	111,485	542,995	49,146	751,701
Claim payments	(42,163)	(79,402)	(538,075)	(42,442)	(702,082)
Liabilities at June 30, 2015	\$187,236	\$353,138	\$75,433	\$94,481	\$710,288
Discount rate	5.0%	5.0%	Undiscounted	2.0%	

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		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	ANNUITIES	LIFE BENEFICIARIES	ANNUITIES	LIFE BENEFICIARIES
<i>Year Ended June 30, 2017</i>				
Balance at June 30, 2016	\$15,588	\$17,779	\$48,898	\$98,134
New obligations to beneficiaries and changes in liability, net	3,353	2,961	7,921	15,733
Payments to beneficiaries	(2,206)	(1,395)	(5,976)	(9,569)
Obligations under life income agreements at June 30, 2017	16,735	19,345	50,843	104,298
Less: Current portion	(763)	(838)	(6,166)	(11,262)
Noncurrent portion at June 30, 2017	\$15,972	\$18,507	\$44,677	\$93,036
<i>Year Ended June 30, 2016</i>				
Balance at June 30, 2015	\$14,878	\$17,699	\$49,779	\$103,268
New obligations to beneficiaries and changes in liability, net	1,926	1,128	5,241	5,082
Payments to beneficiaries	(1,216)	(1,048)	(6,122)	(10,216)
Obligations under life income agreements at June 30, 2016	15,588	17,779	48,898	98,134
Less: Current portion	(763)	(583)	(5,902)	(10,816)
Noncurrent portion at June 30, 2016	\$14,825	\$17,196	\$42,996	\$87,318

13. 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	2017	2016
INTERIM FINANCING:					
Commercial paper		0.9 - 1.3%	2017	\$812,673	\$1,037,857
LONG-TERM FINANCING:					
University of California General Revenue Bonds					
Fixed Rate	4.7%	1.0 - 7.6%	2018-2115	9,959,700	9,033,015
Variable Rate	0.9%	0.9 - 1.1%	2037-2048	750,000	1,250,000
University of California Limited Project Revenue Bonds	4.8%	1.0 - 6.3%	2018-2051	3,702,630	3,783,230
University of California Medical Center Pooled Revenue Bonds					
Fixed Rate	5.5%	0.9 - 6.6%	2018-2049	2,763,295	2,445,435
Variable Rate	1.3%	0.6 - 1.6%	2018-2047	247,865	251,205
University of California Medical Center Revenue Bonds					42,560
Unamortized bond premium				1,020,465	881,814
University of California revenue bonds	4.4%			18,443,955	17,687,259
Capital lease obligations		0.5%-10.0%	2017-2042	195,022	176,753
Other University borrowings		Various	2018-2056	378,659	356,847
Blended component unit revenue bonds, net	5.6%	4.0 - 6.5%	2018-2049	672,567	692,571
Total outstanding debt				20,502,876	19,951,287
Less: Commercial paper				(812,673)	(1,037,857)
Current portion of outstanding debt				(1,519,005)	(1,413,265)
Noncurrent portion of outstanding debt				\$18,171,198	\$17,500,165

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, 2017 and 2016 was \$782.0 million and \$747.8 million, respectively. Interest expense, net of investment income, totaling \$60.8 million and \$54.8 million was capitalized during the years ended June 30, 2017 and 2016, respectively. The remaining \$721.2 million and \$693.0 million in 2017 and 2016 is reported as interest expense in the statement 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	FINANCING OBLIGATIONS	OTHER UNIVERSITY BORROWINGS	BLENDED COMPONENT UNIT REVENUE BONDS	TOTAL
<i>Year Ended June 30, 2017</i>					
Long-term debt and financing obligations at June 30, 2016	\$17,687,259	\$176,753	\$356,847	\$692,571	\$18,913,430
New obligations	2,181,755	55,360	126,105	54,280	2,417,500
Bond premium	213,621			9,107	222,728
Refinancing or prepayment of outstanding debt	(1,224,530)		(39,999)	(56,210)	(1,320,739)
Scheduled principal payments	(339,180)	(37,091)	(64,294)	(24,026)	(464,591)
Amortization of bond premium	(74,970)			(3,155)	(78,125)
Long-term debt and financing obligations at June 30, 2017	18,443,955	195,022	378,659	672,567	19,690,203
Less: Current portion	(1,263,157)	(34,351)	(206,567)	(14,930)	(1,519,005)
Noncurrent portion at June 30, 2017	\$17,180,798	\$160,671	\$172,092	\$657,637	\$18,171,198
<i>Year Ended June 30, 2016</i>					
Long-term debt and financing obligations at June 30, 2015	\$16,777,164	\$131,278	\$337,169	\$690,222	\$17,935,833
New obligations	1,345,155	67,031	200,000	282,555	1,894,741
Bond premium	155,026			40,353	195,379
Refinancing or prepayment of outstanding debt	(214,255)		(52)	(313,575)	(527,882)
Scheduled principal payments	(314,305)	(21,556)	(180,270)	(3,663)	(519,794)
Amortization of bond premium	(61,526)			(3,321)	(64,847)
Long-term debt and financing obligations at June 30, 2016	17,687,259	176,753	356,847	692,571	18,913,430
Less: Current portion	(1,245,038)	(29,008)	(111,904)	(27,315)	(1,413,265)
Noncurrent portion at June 30, 2016	\$16,442,221	\$147,745	\$244,943	\$665,256	\$17,500,165

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.

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)

	2017		2016	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING
Taxable	0.93 - 1.26%	\$812,673	0.39-0.60%	\$1,037,857
Total outstanding		\$812,673		\$1,037,857

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, 2017, the University has two revolving credit agreements totaling \$700.0 million. There were no borrowings against the revolving credit lines as of June 30, 2017.

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 General Revenue Bond 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, 2017 and 2016 were \$16.2 billion and \$15.3 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 Limited Project Revenue Bond 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, 2017 and 2016 were \$1.4 billion and \$1.3 billion, 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 nonoperating 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, 2017 and 2016 were \$11.4 billion and \$10.4 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 required 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 for Limited Project Revenue Bonds is subordinate to the pledge of revenues for General Revenue Bonds, but senior to pledges for commercial paper notes.

Medical center gross revenues are pledged under the Indenture for the Medical Center Pooled Revenue Bonds and certain interest rate swap agreements.

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

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

2017 Activity

In August 2016, Medical Center Pooled Revenue Bonds totaling \$1.0 billion, including \$872.8 million of tax-exempt bonds and \$173.4 million taxable bonds, were issued to finance and refinance certain facilities and projects of the Medical Centers. Proceeds, including a net bond premium of \$155.8 million, were used to pay for project construction, issuance costs and refund \$724.5 million of outstanding Medical Center Pooled Revenue Bonds and all of the outstanding Medical Center Revenue Bonds. The bonds mature at various dates through 2047. Simultaneously, a bank standby bond purchase agreement for certain of the University's variable-rate demand bonds was terminated. The University will provide its own liquidity in connection with mandatory and optional tenders and remarketing of these bonds and does not plan to provide any third-party liquidity facility to support this obligation. The interest rates on the variable-rate demand bonds reset daily and an interest rate swap 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 and taxable bonds have a stated weighted average interest rate of 4.5 percent and 3.0 percent, respectively. The refunding of the outstanding Medical Center Pooled Revenue

Bonds and Medical Center Revenue Bonds resulted in a loss of \$8.0 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the term of the refunded bonds. 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 \$193.5 million and an economic gain of \$151.2 million.

Medical center gross revenues continue to be pledged under the Indenture for the Medical Center Pooled Revenue Bonds and certain interest rate swap agreements. The pledge of medical center revenues for interest rate swap agreements may be at parity with, or subordinate to, specific Medical Center Pooled Revenue Bonds.

In April 2017, General Revenue Bonds totaling \$1.1 billion, including \$449.7 million in tax-exempt bonds, \$185.9 million in taxable bonds and \$500.0 million of taxable fixed rate notes, were issued to finance or refinance certain projects and working capital purposes of the University. The bonds mature at various dates through 2049 and the taxable fixed rate notes mature in 2025. Proceeds, including a bond premium of \$68.0 million, were used to pay for project construction and issuance costs and to refund \$500.0 million of outstanding General Revenue Bonds. The tax-exempt bonds have a stated weighted average interest rate of 4.8 percent. The taxable bonds have a stated weighted average interest rate of 3.8 percent. The taxable fixed rate notes have a stated interest rate of 3.1 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

2016 Activity

In April 2016, General Revenue Bonds totaling \$813.1 million, including \$410.3 million in tax-exempt bonds, \$182.3 million in taxable bonds, \$132.3 million in tax-exempt put bonds and \$88.2 million of taxable fixed rate notes were issued to finance or refinance certain facilities and projects of the University. The bonds mature at various dates through 2046 and the taxable fixed rate notes mature in 2021. The put bonds will be subject to mandatory tender for purchase in 2021. Proceeds, including a bond premium of \$90.0 million, were used to pay for project construction and issuance costs and to refund \$73.4 million of outstanding General Revenue Bonds. The refunding of the outstanding General Revenue Bonds resulted in a loss of \$7.1 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 \$17.7 million and an economic gain of \$11.3 million. The taxable bonds have a stated weighted average interest rate of 3.0 percent. The tax-exempt bonds have a stated weighted average interest rate of 5.0 percent. The tax-exempt put bonds have an initial term rate of 1.4 percent. The taxable fixed rate notes have a stated interest rate of 1.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In June 2016, Limited Project Revenue Bonds totaling \$532.1 million, including \$434.2 million tax-exempt bonds and \$97.9 million taxable bonds, were issued to finance or refinance the acquisition, construction, improvement and renovation of certain athletic, parking, recreational and dining facilities, as well as, student and faculty housing of the University. The bonds mature at various dates through 2051. Proceeds, including a bond premium of \$69.9 million, were used to pay for project construction and issuance costs and to refund \$140.9 million of outstanding General Revenue Bonds. The refunding of the outstanding General Revenue Bonds resulted in a loss of \$13.9 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 \$28.2 million and an economic gain of \$20.2 million. The taxable bonds have a stated weighted average interest rate of 3.1 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.3 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Subsequent Events

In September 2017, Limited Project Revenue Bonds totaling \$860.4 million, including \$733.5 million tax-exempt bonds and \$126.9 million taxable bonds, were issued to finance or refinance the acquisition, construction, improvement and renovation of certain facilities of the University. The bonds mature at various dates through 2052. Proceeds, including a bond premium of \$124.2 million, were used to pay for project construction and issuance costs. The taxable bonds have a stated weighted average rate of 2.9 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Capital Leases

Capital leases entered into with other lessors, typically for equipment, totaled \$55.4 million and \$67.0 million for the years ended June 30, 2017 and 2016, 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 February 14, 2020, totaled \$415.0 million at June 30, 2017 and 2016. Outstanding borrowings under these bank lines totaled \$250.0 million and \$300.0 million at June 30, 2017 and 2016, respectively.

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 \$79.0 million and \$40.0 million at June 30, 2017 and 2016, respectively.

In August 2016, the University entered into an agreement with a developer to design, construct, finance, operate and maintain certain auxiliary, administrative, academic and research facilities of one of its campuses, for which the University will finance \$600.0 million of the total costs. Of this amount, \$585.0 million will be paid to the developer over a 48-month period through a series of monthly progress payments. The remainder will cover invoiced costs for infrastructure improvements and equipment. Upon completion of the design-build phase of the project, the University will enter into an ongoing Operations and Maintenance Agreement with the developer through 2055. Payments under this agreement will have two components: the first component of the agreement is related to the operations and maintenance of the facilities, the second component is to service the private debt incurred by the developer during the construction phase. The operations and maintenance component of the payment will be expensed as incurred. The payments for the private debt are being treated as capital leases and are recorded as other borrowings by the University. In the event that the operations and maintenance agreement with the developer is terminated, the outstanding portion of the private debt incurred by the developer would become an obligation of the University.

As of June 30, 2017, CHRCO had no amounts outstanding under its revolving credit facility for \$25.0 million. The interest rate on the credit facility is 2.3 percent as of June 30, 2017 and the facility expires on August 31, 2018.

Blended Component Unit Revenue Bonds

Student Housing

The University has entered into ground leases with a legally separate, nonprofit 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.

In March 2016, the LLC, through its conduit issuer, issued additional Student Housing LLC Revenue Bonds totaling \$282.6 million. Proceeds, including a bond premium of \$40.5 million, were used to pay for issuance costs and to refund \$313.6 million of outstanding Student Housing LLC Revenue bonds. The refunding of the outstanding Student Housing LLC Revenue Bonds resulted in a loss of \$26.4 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the life of the refunded bonds. The refinancing and refunding of previously outstanding Student Housing LLC Revenue Bonds resulted in cash flow savings of \$71.5 million and an economic gain of \$35.4 million. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The Student Housing LLC Revenue Bonds have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. They are not collateralized by any encumbrance, mortgage or other pledge of property except pledged revenues of the student housing project, and do not constitute general obligations of The Regents.

At June 30, 2017 and 2016, the LLC, through its conduit issuer, has outstanding Student Housing LLC Revenue Bonds totaling \$362.2 million and \$370.9 million, respectively. The bonds mature at various dates through 2040 and have a weighted average interest rate of 5.1 percent.

Subsequent Events

In August 2017, the LLC, through its conduit issuer, issued additional Student Housing LLC Revenue Bonds totaling \$148.6 million. The bonds mature at various dates through 2050 and have a stated weighted average interest rate of 5.0 percent. Proceeds, including a bond premium of \$24.2 million, were used to pay for project construction and issuance costs. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

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, nonprofit 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 nonprofit 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 nonprofit 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 another legally separate, nonprofit 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 \$53.3 million. The bonds mature at various dates through 2040 and have a weighted average interest rate of 4.5 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, 2017, 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	MEDICAL CENTER REVENUE BONDS	UNIVERSITY REVENUE BONDS	CAPITAL LEASES	OTHER UNIVERSITY BORROWINGS	BLENDED COMPONENT UNIT REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
<i>Year Ending June 30</i>									
2018	\$814,394	\$198,359	\$929,307	\$40,278	\$206,770	\$44,206	\$2,233,314	\$1,406,786	\$826,528
2019		198,810	941,581	38,308	56,314	44,211	1,279,224	461,936	817,288
2020		204,509	1,227,121	36,345	5,118	44,207	1,517,300	717,829	799,471
2021		214,349	1,156,955	31,238	4,872	47,775	1,455,189	674,582	780,607
2022		213,327	919,695	8,699	4,882	47,775	1,194,378	435,901	758,477
2023-2027		1,083,942	4,990,072	23,341	23,634	239,067	6,360,056	2,974,050	3,386,006
2028-2032		1,005,028	4,199,049	27,769	21,630	237,234	5,490,710	2,799,908	2,690,802
2033-2037		980,534	3,823,590	33,787	19,159	234,021	5,091,091	3,115,398	1,975,693
2038-2042		956,971	3,041,240	37,772	15,717	140,878	4,192,578	2,978,575	1,214,003
2043-2047		868,729	1,800,270		9,550	69,308	2,747,857	2,100,645	647,212
2048-2052		127,598	597,588		11,315	26,023	762,524	408,615	353,909
2053-2115			5,368,333				5,368,333	1,360,000	4,008,333
Total future debt service	814,394	6,052,156	28,994,801	277,537	378,961	1,174,705	37,692,554	\$19,434,225	\$18,258,329
Less: Interest component of future payments	(1,721)	(3,040,996)	(14,582,471)	(81,349)	(302)	(551,490)	(18,258,329)		
Principal portion of future payments	812,673	3,011,160	14,412,330	196,188	378,659	623,215	19,434,225		
Adjusted by:									
Unamortized bond premium		154,449	866,016			49,352	1,069,817		
Present value of net minimum leases included in long-term debt				(1,166)			(1,166)		
Total debt	\$812,673	\$3,165,609	\$15,278,346	\$195,022	\$378,659	\$672,567	\$20,502,876		

Long-term debt does not include \$2.0 billion of defeased liabilities at June 30, 2017. 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, 2017.

Medical Center Pooled Revenue Bonds of \$98.8 million are variable-rate demand bonds which give the debt holders the ability to tender the bonds back to the University upon demand. The University has classified these bonds as current liabilities as of June 30, 2017.

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, 2017, combined debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

	VARIABLE-RATE BONDS		INTEREST RATE SWAP, NET	TOTAL PAYMENTS
	PRINCIPAL	INTEREST		
<i>Year Ending June 30</i>				
2018	\$3,465	\$8,204	\$13,485	\$25,154
2019	3,590	8,183	13,396	25,169
2020	3,725	8,181	13,309	25,215
2021	3,860	8,137	13,210	25,207
2022	3,995	8,113	13,112	25,220
2023-2027	40,695	39,666	39,910	120,271
2028-2032	49,650	37,427	25,346	112,423
2033-2037	28,840	35,011	19,332	83,183
2038-2042	48,755	32,464	13,943	95,162
2043-2047	531,665	22,259	4,506	558,430
2048-2052	129,625	1,091		130,716
Total	\$847,865	\$208,736	\$169,549	\$1,226,150

14. 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	NET RETIREE HEALTH BENEFITS LIABILITY	DEBT REFUNDING	INTEREST RATE SWAP AGREEMENTS	ROYALTY SALES	TOTAL
<i>At June 30, 2017</i>							
Deferred outflows of resources		\$1,001,165	\$4,106,941	\$351,306	\$90,232		\$5,549,644
Deferred inflows of resources	\$95,725	785,238	4,934,470	1,436		\$467,502	6,284,371
<i>At June 30, 2016</i>							
Deferred outflows of resources		\$5,034,519	\$4,596,226	\$387,222	\$152,123		\$10,170,090
Deferred inflows of resources	\$70,759	1,163,694	1,736,054			\$497,826	3,468,333

15. 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, which includes defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions; UC-VERIP, a defined benefit plan for University employees who were members of PERS and who elected early retirement; and the 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. CHRCO administers the CHRCO Pension Plan as the Sponsor and plan assets are held by US Bank (the Trustee).

Condensed financial information related to each plan in UCRS and the changes in pension liability for UCRP, UC-VERIP and the CHRCO Pension Plan for the year ended June 30, 2017 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					
	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA UC-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	\$63,004,945	\$65,809	\$63,070,754	\$19,503,265	\$82,574,019	\$409,008
Participants' interests in mutual funds				3,351,454	3,351,454	
Investment of cash collateral	3,820,399	4,013	3,824,412	3,017,118	6,841,530	
Other assets	936,331	1,068	937,399	265,914	1,203,313	
Total assets	67,761,675	70,890	67,832,565	26,137,751	93,970,316	409,008
Collateral held for securities lending	3,818,660	4,012	3,822,672	3,015,744	6,838,416	
Other liabilities	1,828,757	1,900	1,830,657	639,375	2,470,032	
Total liabilities	5,647,417	5,912	5,653,329	3,655,119	9,308,448	
Net position held in trust	\$62,114,258	\$64,978	\$62,179,236	\$22,482,632	\$84,661,868	\$409,008
CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET POSITION						
Contributions	\$3,448,563		\$3,448,563	\$1,330,901	\$4,779,464	\$28,800
Net appreciation (depreciation) in fair value of investments	6,906,968	\$7,474	6,914,442	1,701,958	8,616,400	
Investment and other income, net	959,313	1,192	960,505	476,266	1,436,771	41,256
Total additions	11,314,844	8,666	11,323,510	3,509,125	14,832,635	70,056
Benefit payment and participant withdrawals	3,320,990	4,738	3,325,728	1,374,324	4,700,052	11,767
Other deductions	44,128	6	44,134	8,816	52,950	2,727
Total deductions	3,365,118	4,744	3,369,862	1,383,140	4,753,002	14,494
Increase in net position held in trust	7,949,726	3,922	7,953,648	2,125,985	10,079,633	55,562
Net position held in trust						
Beginning of year	54,164,532	61,056	54,225,588	20,356,647	74,582,235	353,446
End of year	\$62,114,258	\$64,978	\$62,179,236	\$22,482,632	\$84,661,868	\$409,008
CHANGES IN TOTAL PENSION LIABILITY						
Service cost	\$1,807,143		\$1,807,143			\$9,910
Interest	5,035,267	\$2,463	5,037,730			29,672
Difference between expected and actual experience	74,664	(189)	74,475			33
Changes of benefit terms						2,442
Changes of assumptions or other inputs						
Benefits paid, including refunds of employee contributions	(3,320,990)	(4,738)	(3,325,728)			(11,767)
Net change in total pension liability	3,596,084	(2,464)	3,593,620			30,290
Total pension liability						
Beginning of year	69,230,762	35,008	69,265,770			419,862
End of year	\$72,826,846	\$32,544	\$72,859,390			\$450,152
Net pension liability (asset), end of year	\$10,712,588	\$(32,434)	\$10,680,154			\$41,144

Additional information on the retirement plans can be obtained from the 2016-2017 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 or plan provisions. Annual cost-of-living adjustments 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, 2017:

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	59,806	13,189	72,995
Inactive members entitled to, but not receiving benefits	76,735	10,317	87,052
Active members:			
Vested	74,397	1,667	76,064
Nonvested	52,472	846	53,318
Total active members	126,869	2,513	129,382
Total membership	263,410	26,019	289,429

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 contributions range from 7.0 percent to 9.0 percent. The University pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP 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 based upon rates authorized by The Regents and is reimbursed by the DOE. 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 (and related deferred inflows and outflows of resources) that will be reimbursed under DOE contracts, a receivable from the DOE is recorded. As of June 30, 2017 and 2016, the University reported \$615.1 million and \$974.7 million, respectively, as other noncurrent Department of Energy receivables for pension liabilities. Contributions of \$367.7 million and \$413.9 million were reported as DOE laboratory revenue and expense in the statement of revenues, expenses and changes in net position, and were deposited into UCRP on behalf of the DOE for the years ended June 30, 2017 and 2016, 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:

<i>(in thousands of dollars)</i>	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
<i>At June 30, 2017</i>			
UCRP net position	\$53,251,580	\$8,862,678	\$62,114,258
Total pension liability	63,355,934	9,470,912	72,826,846
Net pension liability	\$10,104,354	\$608,234	\$10,712,588
<i>At June 30, 2016</i>			
UCRP net position	\$46,127,486	\$8,037,046	\$54,164,532
Total pension liability	59,779,748	9,451,014	69,230,762
Net pension liability	\$13,652,262	\$1,413,968	\$15,066,230

The University's net pension liability was measured as of June 30 and was calculated using the plan net position valued as of the measurement date and total pension liability determined based upon rolling forward the total pension liability from the results of the actuarial valuations as of July 1 one year prior to the measurement date. 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:

	2017	2016
Inflation	3.0%	3.0%
Investment rate of return	7.25	7.25
Projected salary increases	3.8 - 6.2	3.8 - 6.2
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 used in 2017 were 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 MP-2014 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 MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The long-term expected investment rate of return assumption for UCRP was determined in 2015 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 investment 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	6.5	4.2
Real Assets	3.0	4.4
Total	100.0%	5.6%

Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2017 and 2016 was 7.25 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, state and member contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected University and member 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, 2017 and 2016.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2017 net pension liability of the University calculated using the June 30, 2017 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:

<i>(in thousands of dollars)</i>	1% DECREASE (6.25%)	CURRENT DISCOUNT (7.25%)	1% INCREASE (8.25%)
UCRP	\$19,885,642	\$10,712,588	\$3,125,799
UC-VERIP	(30,667)	(32,434)	(33,952)

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:

<i>(in thousands of dollars)</i>	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	UC-VERIP	TOTAL
<i>At June 30, 2017</i>					
DEFERRED OUTFLOWS OF RESOURCES					
Difference between expected and actual experience	\$179,399		\$179,399		\$179,399
Changes of assumptions or other inputs	785,741		785,741		785,741
Net difference between projected and actual earnings on pension plan investments		\$7,275	7,275		7,275
Total	\$965,140	\$7,275	\$972,415		\$972,415
DEFERRED INFLOWS OF RESOURCES					
Difference between expected and actual experience	\$151,067	\$7,410	\$158,477		\$158,477
Changes of assumptions or other inputs	378,815		378,815		378,815
Net difference between projected and actual earnings on pension plan investments	244,430		244,430		244,430
Total	\$774,312	\$7,410	\$781,722		\$781,722

<i>(in thousands of dollars)</i>	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	UC-VERIP	TOTAL
<i>At June 30, 2016</i>					
DEFERRED OUTFLOWS OF RESOURCES					
Difference between expected and actual experience	\$133,315		\$133,315		\$133,315
Changes of assumptions or other inputs	1,790,043		1,790,043		1,790,043
Net difference between projected and actual earnings on pension plan investments	2,610,352	\$450,700	3,061,052	\$3,299	3,064,351
Total	\$4,533,710	\$450,700	\$4,984,410	\$3,299	\$4,987,709
DEFERRED INFLOWS OF RESOURCES					
Difference between expected and actual experience	\$270,482	\$11,422	\$281,904		\$281,904
Changes of assumptions or other inputs	877,254		877,254		877,254
Total	\$1,147,736	\$11,422	\$1,159,158		\$1,159,158

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2017 related to pensions that will be recognized in pension expense during the next five years are as follows:

<i>(in thousands of dollars)</i>	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	UC-VERIP	TOTAL
2018	\$(400,667)	\$(45,287)	\$(445,954)	\$(403)	\$(446,357)
2019	849,391	107,064	956,455	877	957,332
2020	366,735	45,075	411,810	376	412,186
2021	(633,819)	(106,987)	(740,806)	(850)	(741,656)
2022	9,188		9,188		9,188
Total	\$190,828	\$(135)	\$190,693		\$190,693

Defined Contribution Plan

Effective July 1, 2016, newly hired (or becoming eligible) employees can elect a defined contribution option instead of participating in UCRP. For employees who elect this option, both the University and the participants make mandatory contributions, on a pretax basis, on eligible pay up to the IRS compensation limit. The participant contributes 7.0 percent and the University contributes 8.0 percent. University contributions are fully vested after one year of service. For certain newly hired (or becoming eligible) employees who elect to participate in UCRP, the University and the participants make mandatory contributions to the DC Plan on eligible pay up to the IRS limit. Participants contribute 7.0 percent on eligible pay and the University contributes 5.0 percent for designated faculty and 3.0 percent for staff. University contributions fully vest after five years service.

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 \$13.2 million and \$4.9 million for the years ended June 30, 2017 and 2016, 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, 2017 and 2016.

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 \$3.2 million and \$1.5 million for the years ended June 30, 2017 and 2016.

457(b) Deferred Compensation Plan

The University's 457(b) Deferred Compensation Plan (457(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. There were no employer contributions to the 457(b) Plan for the years ended June 30, 2017 and 2016.

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 Voluntary Early Retirement Incentive Program (UC-PERS)

UC-PERS 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, 2017, there are 522 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 actuarially determined contributions are zero for the years ended June 30, 2017 and 2016.

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 covers active and retired employees. The CHRCO Pension Plan was amended effective January 1, 2012 to exclude unrepresented employees hired or rehired on or after January 1, 2012. The CHRCO Pension Plan provides retirement, disability and death benefits to plan participants. Benefits are based on a participant's length of service, age at retirement and average compensation as defined by the CHRCO Pension Plan.

The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2017 and 2016: 3.0 percent inflation, 7.0 percent investment rate of return, 5.0 percent projected salary increases through 2017, 4.0 percent afterward and no cost-of-living adjustments. CHRCO recognized pension expense of \$20.0 million and \$21.4 million for the years ended June 30, 2017 and 2016, respectively.

Mortality rates were based on the RP-2016 mortality with fully generational projected mortality improvements using modified scale MP-2016. The MP-2016 projection scale was modified for this valuation to utilize the Social Security administration intermediate cost projection scale and a 15-year convergence period.

Additional information on the CHRCO Pension Plan can be found in the annual reports, which can be obtained by contacting CHRCO.

Membership in the CHRCO Plan consisted of the following at June 30, 2017:

Retirees and beneficiaries receiving benefits	883
Inactive members entitled to, but not yet receiving benefits	1,095
Active members	1,926
Total membership	3,904

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 CHRCO was measured as of June 30, 2017 and 2016, and the total pension liability was determined by an actuarial valuation as of January 1, 2017 and 2016 rolled forward to June 30, 2017 and 2016, respectively. The actuarial assumptions used in the June 30, 2017 and 2016 valuation were based on the results of an experience review conducted during 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	LONG-TERM EXPECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	51.3%	5.2%
Developed International Equity	10.6	5.7
Emerging Market Equity	2.0	9.2
Core Fixed Income	36.1	0.8
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent for June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumes that CHRCO 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, 2017 net pension liability calculated using the June 30, 2017 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:

<i>(in thousands of dollars)</i>	1% DECREASE (6.0%)	CURRENT DISCOUNT (7.0%)	1% INCREASE (8.0%)
Net pension liability	\$105,079	\$41,144	\$(11,643)

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:

<i>(in thousands of dollars)</i>	2017	2016
Deferred Outflows of Resources		
Difference between expected and actual experience	\$4,356	\$3,528
Changes of benefit terms	195	254
Changes of assumptions	21,768	27,877
Net difference between projected and actual earnings on pension plan investments	1,354	13,103
Total	\$27,673	\$44,762
Deferred Inflows of Resources		
Net difference between projected and actual earnings on pension plan investments	\$2,370	\$3,030
Total	\$2,370	\$3,030

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 is as follows:

<i>(in thousands of dollars)</i>	
<i>Year Ending June 30</i>	
2018	\$5,459
2019	10,772
2020	8,411
2021	328
2022	333
Total	\$25,303

Orange County Employees Retirement System

Orange County Employees Retirement System (OCERS) administers a cost-sharing, multi-employer defined benefit pension plan for the County of Orange, City of San Juan Capistrano and thirteen special districts. Certain employees of one of the University's medical centers were eligible to continue to participate in OCERS at the time the county hospital was acquired by the University.

OCERS provides retirement, disability and death benefits. Plan retirement benefits are tiered based upon date of OCERS membership. Participation in the Plan by the University's employees is closed to new members. The University's share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon its specific actuarial accrued liability and a share of assets allocated in accordance with a formula set forth in OCERS' policy. The fiduciary net position and changes in net position have been measured consistent with the accounting policies used by the OCERS Plan.

Membership in the OCERS Plan consisted of the following at December 31, 2016: 16,369 retired members and beneficiaries, 5,370 inactive members and 21,746 active members.

Contributions

Contribution rates are set by the OCERS Board of Trustees.

Net Pension Liability

The University's proportionate share of the net pension liability on June 30, 2017 and 2016 was \$18.1 million, or 0.3 percent. The net pension liability for OCERS was measured as of June 30, 2017 and 2016, and the total pension liability was determined by an actuarial valuation as of December 31, 2016 and 2015 rolled forward to June 30, 2017 and 2016, respectively. The actuarial assumptions used in the 2017 and 2016 valuation were based on the results of an experience study for the period from January 1, 2011 through December 31, 2013.

The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2017 and 2016: 3.0 percent inflation, 7.25 percent investment rate of return, 4.25-13.5 percent projected salary increases and 3.0 percent cost-of-living adjustments. Additional information on OCERS can be obtained from the 2016-2017 annual reports of the Orange County Employees Retirement System at <http://www.ocers.org>.

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 for the OCERS Plan are as follows:

	ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM	
	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
Asset class		
Large Cap U.S. Equity	14.9%	5.9%
Small/Mid Cap U.S. Equity	2.7	6.5
Developed International Equity	10.9	6.9
Emerging International Equity	6.5	8.3
Core Bonds	10.0	0.7
Global Bonds	2.0	0.3
Emerging Market Debt	3.0	4.0
Real Estate	10.0	5.0
Diversified Credit (U.S. Credit)	8.0	5.0
Diversified Credit (Non-U.S. Credit)	2.0	6.8
Hedge Funds	7.0	4.1
GTAA	7.0	4.2
Real Return	10.0	5.9
Private Equity	6.0	9.6
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent for June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rate. For this purpose, only employer contributions will be made at rates equal to the actuarially determined contribution rates.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability calculated using the June 30, 2017 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:

	ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM		
	1% DECREASE (6.25%)	CURRENT DISCOUNT RATE (7.25%)	1% INCREASE (8.25%)
(in thousands of dollars) Net pension liability	\$26,065	\$18,057	\$11,466

Deferred Outflow of Resources and Deferred Inflows of Resources

As of June 30, deferred outflow of resources and deferred inflows of resources were as follows:

<i>(in thousands of dollars)</i>	2017	2016
Deferred Outflows of Resources		
Difference between expected and actual experience	\$491	\$499
Net difference between projected and actual earnings on pension plan investments	586	1,549
Total	\$1,077	\$2,048
Deferred Inflows of Resources		
Difference between expected and actual experience	\$443	\$582
Changes in assumptions	703	925
Total	\$1,146	\$1,507

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:

<i>(in thousands of dollars)</i>	
<i>Year Ending June 30</i>	
2018	\$(105)
2019	(106)
2020	232
2021	(113)
2022	23
Total	\$(69)

16. 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) of the University of California and its affiliates through the University of California Retiree Health Benefit Trust (UCRHBT). The Regents has the authority to establish and amend the plan.

Campus and medical center contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT. The University receives retiree health contributions from retirees that are deducted from their UCRP benefit payments. 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. UCRHBT reimburses the University for these amounts.

LBNL participates in the University's retiree health plans. LBNL does not participate in UCRHBT; therefore, the DOE has no interest in the Trust's assets. The University directly pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at LBNL, and is reimbursed by the DOE.

Condensed financial information for the changes in retiree health benefits liability for the year ended June 30, 2017 is as follows:

<i>(in thousands of dollars)</i>	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Contributions	\$485,427	\$20,242	\$505,669
Investment income, net	606		606
Total additions	486,033	20,242	506,275
Insurance premiums, net	(447,604)	(20,242)	(467,846)
Other deductions	(4,256)		(4,256)
Total deductions	(451,860)	\$(20,242)	(472,102)
Increase in net position held in UCRHBT	34,173		34,173
Net position held in UCRHBT, beginning of year	72,541		72,541
Net position held in UCRHBT, end of year	\$106,714		\$106,714

<i>(in thousands of dollars)</i>	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
CHANGES IN TOTAL RETIREE HEALTH BENEFITS LIABILITY			
Service cost	\$981,745	\$22,899	\$1,004,644
Interest	625,947	20,332	646,279
Difference between expected and actual experience	95,254	6,026	101,280
Changes of assumptions and other inputs	(3,707,921)	(120,003)	(3,827,924)
Retiree contributions	69,968	2,748	72,716
Benefits paid	(447,604)	(20,242)	(467,846)
Net change in total retiree health benefits liability	(2,382,611)	(88,240)	(2,470,851)
Total retiree health benefits liability			
Beginning of year	21,168,812	699,177	21,867,989
End of year	\$18,786,201	\$610,937	\$19,397,138
Net retiree health benefit liability, end of year	\$18,679,487	\$610,937	\$19,290,424

Benefits

Retirees are eligible for medical and dental benefits. The costs of the medical and dental benefits are shared between the University and the retiree. The University does not contribute toward the cost of other benefits available to retirees. Retirees 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. Retirees pay the excess, if any, of the premium over the applicable portion of the University's contribution.

Membership in UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at June 30, 2017:

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	41,157	1,817	42,974
Active members entitled to, but not yet receiving benefits	122,932	2,578	125,510
Total membership	164,089	4,395	168,484

Contributions

The University does not pre-fund retiree health benefits and instead provides for benefits 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. The assessment rates were \$2.93 and \$2.98 per \$100 of UCRP covered payroll effective July 1, 2016 and 2015, respectively.

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.

Net Retiree Health Benefits Liability

The University’s net retiree health benefits liability was measured as of June 30 based on 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. Significant actuarial methods and assumptions used to calculate the University’s net retiree health benefits liability were:

<i>(shown as percentage)</i>	2017	2016
Discount rate	3.6%	2.9%
Inflation	3.0	3.0
Investment rate of return	3.0	3.0
Health care cost trend rates	Initially ranges from 5.0 to 9.5 decreasing to an ultimate rate of 5.0 for 2032 and later years.	Initially ranges from 6.3 to 9.0 decreasing to an ultimate rate of 5.0 for 2031 and later years.

The actuarial assumptions are based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP-2014 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 MP-2014 projection scale to 2029 and with ages then set back one year for males and set forward five years for females.

Sensitivity of Net Retiree Health Benefits Liability to the Health Care Cost Trend Rate

The following presents the June 30, 2017 net retiree health benefits liability of the University calculated using the June 30, 2017 health care cost trend rate assumption with initial trend ranging from 5.0 percent to 9.5 percent grading down to an ultimate trend of 5.0 percent over 15 years, as well as what the net retiree health benefits liability would be if it were calculated using a health care cost trend rate different than the current assumption:

<i>(in thousands of dollars)</i>	1% DECREASE (4.0% TO 8.5% DECREASING TO 4.0%)	CURRENT DISCOUNT (5.0% TO 9.5% DECREASING TO 5.0%)	1% INCREASE (6.0% - 10.5% INCREASING TO 6.0%)
Net retiree health benefits liability	\$16,401,133	\$19,290,424	\$23,275,729

Discount Rate

The discount rate used to estimate the net retiree health benefits liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The discount rate was based on the Bond Buyer 20-year tax-exempt general obligations municipal bond index rate since UCHRBT plan assets are projected not sufficient to make benefit payments.

Sensitivity of Net Retiree Health Benefits Liability to the Discount Rate Assumption

The following presents the June 30, 2017 net retiree health benefits liability of the University calculated using the June 30, 2017 discount rate assumption of 3.58 percent, as well as what the net retiree health benefits liability would be if it were calculated using a discount rate different than the current assumption:

<i>(in thousands of dollars)</i>	1% DECREASE (2.58%)	CURRENT TREND (3.58%)	1% INCREASE (4.58%)
Net retiree health benefits liability	\$23,100,556	\$19,290,424	\$16,466,009

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for retiree health benefits were related to the following sources:

(in thousands of dollars)

2017	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
DEFERRED OUTFLOWS OF RESOURCES			
Difference between expected and actual experience	\$85,012	\$5,084	\$90,096
Changes of assumptions or other inputs	3,897,003	116,490	4,013,493
Net difference between projected and actual earnings on plan investments	3,352		3,352
Total	\$3,985,367	\$121,574	\$4,106,941
DEFERRED INFLOWS OF RESOURCES			
Difference between expected and actual experience	\$1,471,781	\$52,216	\$1,523,997
Changes of assumptions or other inputs	3,309,220	101,253	3,410,473
Total	\$4,781,001	\$153,469	\$4,934,470

(in thousands of dollars)

2016	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
DEFERRED OUTFLOWS OF RESOURCES			
Changes of assumptions or other inputs	\$4,453,093	\$140,760	\$4,593,853
Net difference between projected and actual earnings on plan investments	2,373		2,373
Total	\$4,455,466	\$140,760	\$4,596,226
DEFERRED INFLOWS OF RESOURCES			
Difference between expected and actual experience	\$1,673,395	\$62,659	\$1,736,054
Total	\$1,673,395	\$62,659	\$1,736,054

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2017 related to retiree health benefits that will be recognized in retiree health benefit expense during the next five years and thereafter are as follows:

<i>(in thousands of dollars)</i>	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
2018	\$(32,892)	\$(3,981)	\$(36,873)
2019	(32,892)	(3,981)	(36,873)
2020	(33,229)	(3,981)	(37,210)
2021	(33,567)	(3,981)	(37,548)
2022	(33,983)	(8,841)	(42,824)
Thereafter	(629,071)	(7,130)	(636,201)
Total	\$(795,634)	\$(31,895)	\$(827,529)

17. ENDOWMENTS AND GIFTS

Endowments and gifts are held and administered either by the University or by the campus foundations.

University of California

The value of endowments and gifts held and administered by the University, exclusive of income distributed to be used for operating purposes, at June 30, 2017 and 2016 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
<i>At June 30, 2017</i>				
Endowments	\$1,121,743	\$2,921,277	\$5,414	\$4,048,434
Funds functioning as endowments		2,526,811	3,742,764	6,269,575
Annuity and life income	21,324	9,534		30,858
Gifts		1,423,479		1,423,479
University endowments and gifts	\$1,143,067	\$6,881,101	\$3,748,178	\$11,772,346
<i>At June 30, 2016</i>				
Endowments	\$1,092,786	\$2,539,481	\$4,770	\$3,637,037
Funds functioning as endowments		2,275,525	2,905,204	5,180,729
Annuity and life income	18,297	8,376		26,673
Gifts		1,261,615	16,954	1,278,569
University endowments and gifts	\$1,111,083	\$6,084,997	\$2,926,928	\$10,123,008

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 \$2.4 billion and \$2.1 billion at June 30, 2017 and 2016, 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 \$277.2 million and \$260.5 million for the years ended June 30, 2017 and 2016, 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 \$253.8 million and \$240.4 million for the years ended June 30, 2017 and 2016, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was \$629.8 million and \$595.6 million at June 30, 2017 and 2016, respectively.

Campus Foundations

The value of endowments and gifts held by the campus foundations and administered by each of their independent Board of Trustees at June 30 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
<i>At June 30, 2017</i>				
Endowments	\$3,967,220	\$1,246,890		\$5,214,110
Funds functioning as endowments		1,515,774		1,515,774
Annuity and life income	78,705	57,678		136,383
Gifts		1,542,758	\$193,132	1,735,890
Campus foundations' endowments and gifts	\$4,045,925	\$4,363,100	\$193,132	\$8,602,157
<i>At June 30, 2016</i>				
Endowments	\$3,631,455	\$884,701		\$4,516,156
Funds functioning as endowments		1,358,719		1,358,719
Annuity and life income	68,594	52,715		121,309
Gifts		1,445,797	\$94,869	1,540,666
Campus foundations' endowments and gifts	\$3,700,049	\$3,741,932	\$94,869	\$7,536,850

18. 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, 2017 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
<i>Year Ended June 30, 2017</i>					
Revenue bonds outstanding	\$337,570	\$317,870	\$729,825	\$711,085	\$914,810
Related debt service payments	\$32,491	\$18,190	\$46,008	\$42,662	\$57,013
Bonds due serially through	2047	2049	2049	2049	2049
CONDENSED STATEMENT OF NET POSITION					
Current assets	\$999,025	\$527,151	\$1,471,268	\$740,767	\$1,335,527
Capital assets, net	1,030,246	734,509	1,749,540	1,620,948	2,349,538
Other assets	104,942	69,703	322,112	31,380	272,525
Total assets	2,134,213	1,331,363	3,542,920	2,393,095	3,957,590
Total deferred outflows of resources	362,917	160,399	516,101	345,110	836,506
Current liabilities	328,609	270,520	404,441	231,802	592,470
Long-term debt	362,743	338,340	934,794	754,170	928,264
Other noncurrent liabilities	2,145,257	1,030,129	2,564,310	1,535,743	3,106,945
Total liabilities	2,836,609	1,638,989	3,903,545	2,521,715	4,627,679
Total deferred inflows of resources	369,066	205,017	421,778	251,166	533,051
Net investment in capital assets	640,415	393,404	790,467	857,221	1,396,747
Restricted	86,748	69,703	11,138		90,811
Unrestricted	(1,435,708)	(815,351)	(1,067,907)	(891,897)	(1,854,192)
Total net position	\$(708,545)	\$(352,244)	\$(266,302)	\$(34,676)	\$(366,634)

(in thousands of dollars)

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS					
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION					
Operating revenues	\$2,147,374	\$1,116,327	\$2,502,552	\$1,688,162	\$3,951,754
Operating expenses	(1,904,823)	(981,506)	(2,241,931)	(1,591,807)	(3,792,538)
Depreciation expense	(78,839)	(69,271)	(142,841)	(76,779)	(210,913)
Operating income (loss)	163,712	65,550	117,780	19,576	(51,697)
Nonoperating revenues (expenses), net	9,467	(17,961)	(36,579)	(10,470)	24,067
Income (loss) before other changes in net position	173,179	47,589	81,201	9,106	(27,630)
Health systems support	(28,088)	(59,727)	(175,341)	(109,586)	(84,898)
Transfers (to) from University, net	(4,349)			(404)	89
Changes in allocation for pension payable to University	1,892	7,266	5,834	(9,130)	6,506
Other, including donated assets	983	1,756	3,500	30,218	30,715
Increase (decrease) in net position	143,617	(3,116)	(84,806)	(79,796)	(75,218)
Net position - beginning of year	(852,162)	(349,128)	(181,496)	45,120	(291,416)
Net position - June 30, 2017	\$(708,545)	\$(352,244)	\$(266,302)	\$(34,676)	\$(366,634)

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:

Operating activities	\$289,030	\$257,072	\$304,081	\$166,061	\$390,971
Noncapital financing activities	(29,396)	(59,134)	(173,112)	(112,361)	(62,856)
Capital and related financing activities	(25,665)	(30,292)	(43,206)	(135,525)	(136,759)
Investing activities	(70,468)	(78,116)	16,381	11,058	(15,333)
Net increase (decrease) in cash and cash equivalents	163,501	89,530	104,144	(70,767)	176,023
Cash and cash equivalents* - June 30, 2016	464,908	253,332	903,617	465,589	450,701
Cash and cash equivalents* - June 30, 2017	\$628,409	\$342,862	\$1,007,761	\$394,822	\$626,724

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

Condensed financial statement information related to each of the University's medical centers for the year ended June 30, 2016 is as follows:

(in thousands of dollars)

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS					
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
<i>Year Ended June 30, 2016</i>					
Revenue bonds outstanding	\$282,054	\$265,185	\$700,315	\$658,667	\$832,979
Related debt service payments	\$32,833	\$24,007	\$44,507	\$40,201	\$54,236
Bonds due serially through	2047	2049	2049	2048	2049
CONDENSED STATEMENT OF NET POSITION					
Current assets	\$825,786	\$477,962	\$1,319,490	\$757,892	\$1,120,331
Capital assets, net	1,004,073	718,179	1,813,446	1,471,118	2,381,726
Other assets	18,837		299,918	37,073	224,590
Total assets	1,848,696	1,196,141	3,432,854	2,266,083	3,726,647
Total deferred outflows of resources	630,774	303,895	774,292	422,288	1,003,134
Current liabilities	374,616	240,452	421,741	234,871	510,171
Long-term debt	268,671	267,344	837,071	684,672	829,519
Other noncurrent liabilities	2,493,557	1,237,534	2,920,816	1,596,701	3,419,626
Total liabilities	3,136,844	1,745,330	4,179,628	2,516,244	4,759,316
Total deferred inflows of resources	194,788	103,834	209,014	127,007	261,881
Net investment in capital assets	701,366	446,355	959,252	749,527	1,475,111
Restricted			11,360		63,785
Unrestricted	(1,553,528)	(795,483)	(1,152,108)	(704,407)	(1,830,312)
Total net position	\$(852,162)	\$(349,128)	\$(181,496)	\$45,120	\$(291,416)

(in thousands of dollars)

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS					
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION					
Operating revenues	\$1,935,274	\$1,009,651	\$2,364,038	\$1,544,658	\$3,567,317
Operating expenses	(1,895,627)	(966,448)	(2,202,804)	(1,448,810)	(3,617,548)
Depreciation expense	(79,291)	(68,706)	(134,100)	(58,391)	(205,146)
Operating income (loss)	(39,644)	(25,503)	27,134	37,457	(255,377)
Nonoperating revenues (expenses), net	(461)	(20,450)	(24,398)	16	(15,663)
Income (loss) before other changes in net position	(40,105)	(45,953)	2,736	37,473	(271,040)
Health systems support	(41,387)	(65,081)	(176,852)	(96,570)	(64,055)
Transfers (to) from University, net	(8,563)	3,086	(8,950)	(2,735)	8,240
Changes in allocation for pension payable to University	(1,184)	681	(452)	(1,613)	(12,414)
Other, including donated assets	2,074	822	16,212	52,255	47,290
Decrease in net position	(89,165)	(106,445)	(167,306)	(11,190)	(291,979)
Net position - beginning of year	(762,997)	(242,683)	(14,190)	56,310	563
Net position - June 30, 2016	\$(852,162)	\$(349,128)	\$(181,496)	\$45,120	\$(291,416)
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	\$207,723	\$128,263	\$430,799	\$303,984	\$214,823
Noncapital financing activities	(46,176)	(64,180)	(175,258)	(101,887)	(47,456)
Capital and related financing activities	(118,061)	(84,466)	(102,284)	(188,317)	(175,565)
Investing activities	12,168	(9,042)	15,583	49,764	6,557
Net increase (decrease) in cash and cash equivalents	55,654	(29,425)	168,840	63,544	(1,641)
Cash and cash equivalents* - June 30, 2015	409,254	282,757	734,777	402,045	452,342
Cash and cash equivalents* - June 30, 2016	\$464,908	\$253,332	\$903,617	\$465,589	\$450,701

*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, 2015.

Summarized financial information for each medical center is from the medical centers' 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.

19. BLENDED COMPONENT UNIT INFORMATION

Condensed financial statement information related to the University's blended component units for the years ended June 30, are as follows:

(in thousands of dollars)

	FIAT LUX		CHRCO	
	2017	2016	2017	2016
CONDENSED STATEMENTS OF NET POSITION				
Current assets	\$543,817	\$69,341	\$249,445	\$195,918
Capital assets, net			295,766	275,951
Other assets	393,049	10,576	253,336	211,711
Total assets	936,866	79,917	798,547	683,580
Total deferred outflows of resources			27,673	44,761
Current liabilities	205,073	3,395	104,878	98,477
Other noncurrent liabilities	583,779	72,105	174,519	147,244
Total liabilities	788,852	75,500	279,397	245,721
Total deferred inflows of resources			2,370	3,030
Net investment in capital assets			191,683	222,236
Restricted			75,403	55,036
Unrestricted	148,014	4,417	277,367	202,318
Total net position	\$148,014	\$4,417	\$544,453	\$479,590
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
Operating revenues	\$216,407	\$17,182	\$597,564	\$483,065
Operating expenses	(242,706)	(31,117)	(558,460)	(524,445)
Depreciation expense			(33,842)	(34,274)
Operating income (loss)	(26,299)	(13,935)	5,262	(75,654)
Nonoperating revenues (expenses), net	12,767	591	42,151	2,899
Income (loss) before other changes in net position in net position	(13,532)	(13,344)	47,413	(72,755)
Transfers from University	157,129			
Other, including donated assets			17,450	20,808
Increase (decrease) in net position	143,597	(13,344)	64,863	(51,947)
Net position – beginning of year	4,417	17,761	479,590	531,537
Net position – end of year	\$148,014	\$4,417	\$544,453	\$479,590
CONDENSED STATEMENT OF CASH FLOWS				
<i>Net cash provided (used) by:</i>				
Operating activities	\$49,463	\$14,859	\$36,732	\$(13,671)
Noncapital financing activities			19,523	10,918
Capital and related financing activities	786,167		5,645	(19,092)
Investing activities	(850,563)	(20,084)	(14,452)	(289)
Net increase (decrease) in cash and cash equivalents	(14,933)	(5,225)	47,448	(22,134)
Cash and cash equivalents – beginning of year	15,635	20,860	71,414	93,548
Cash and cash equivalents – end of year	\$702	\$15,635	\$118,862	\$71,414

Additional information on the blended component units can be found in their separately issued audited financial statements, which can be obtained by contacting Fiat Lux and CHRCO.

20. CAMPUS FOUNDATIONS INFORMATION

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University of California.

Condensed financial statement information related to the University's campus foundations, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the year ended June 30, 2017 is as follows:

(in thousands of dollars)

UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
CONDENSED STATEMENT OF NET POSITION					
Current assets	\$76,070	\$286,739	\$490,034	\$350,732	\$1,203,575
Noncurrent assets	2,038,355	1,509,773	2,565,913	2,114,987	8,229,028
Total assets	2,114,425	1,796,512	3,055,947	2,465,719	9,432,603
Total deferred outflows of resources					
Current liabilities	16,379	39,032	263,424	118,887	437,722
Noncurrent liabilities	78,392	254,620	32,449	25,540	391,001
Total liabilities	94,771	293,652	295,873	144,427	828,723
Total deferred inflows of resources					
			1,723		1,723
Restricted	2,015,269	1,502,447	2,600,898	2,290,411	8,409,025
Unrestricted	4,385	413	157,453	30,881	193,132
Total net position	\$2,019,654	\$1,502,860	\$2,758,351	\$2,321,292	\$8,602,157
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION					
Operating revenues	\$114,188	\$155,614	\$305,490	\$293,997	\$869,289
Operating expenses	(208,956)	(231,647)	(292,211)	(236,701)	(969,515)
Operating income (loss)	(94,768)	(76,033)	13,279	57,296	(100,226)
Nonoperating revenues	218,641	155,790	262,941	239,976	877,348
Income before other changes in net position	123,873	79,757	276,220	297,272	777,122
Permanent endowments	67,737	41,513	70,719	108,216	288,185
Increase in net position	191,610	121,270	346,939	405,488	1,065,307
Net position – June 30, 2016	1,828,044	1,381,590	2,411,412	1,915,804	7,536,850
Net position – June 30, 2017	\$2,019,654	\$1,502,860	\$2,758,351	\$2,321,292	\$8,602,157
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	\$(97,936)	\$(100,607)	\$(44,964)	\$18,771	\$(224,736)
Noncapital financing activities	49,682	55,862	52,464	94,106	252,114
Capital and related financing activities				(192)	(192)
Investing activities	49,184	103,578	(7,797)	(112,963)	32,002
Net increase (decrease) in cash and cash equivalents	930	58,833	(297)	(278)	59,188
Cash and cash equivalents – June 30, 2016	3,657	152,027	5,576	33,652	194,912
Cash and cash equivalents – June 30, 2017	\$4,587	\$210,860	\$5,279	\$33,374	\$254,100

Condensed financial statement information related to the University's campus foundations, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the year ended June 30, 2016 is as follows:

(in thousands of dollars)

UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
CONDENSED STATEMENT OF NET POSITION					
Current assets	\$78,588	\$193,643	\$434,051	\$259,166	\$965,448
Noncurrent assets	1,838,382	1,456,193	2,254,770	1,738,791	7,288,136
Total assets	1,916,970	1,649,836	2,688,821	1,997,957	8,253,584
Current liabilities	15,950	46,269	246,519	55,988	364,726
Noncurrent liabilities	72,976	221,977	29,430	26,165	350,548
Total liabilities	88,926	268,246	275,949	82,153	715,274
Total deferred inflows of resources			1,460		1,460
Restricted	1,825,680	1,381,166	2,344,581	1,890,554	7,441,981
Unrestricted	2,364	424	66,831	25,250	94,869
Total net position	\$1,828,044	\$1,381,590	\$2,411,412	\$1,915,804	\$7,536,850
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION					
Operating revenues	\$127,301	\$180,801	\$258,641	\$225,732	\$792,475
Operating expenses	(188,917)	(232,835)	(263,898)	(229,518)	(915,168)
Operating loss	(61,616)	(52,034)	(5,257)	(3,786)	(122,693)
Nonoperating revenues	(34,417)	(32,548)	(62,363)	(39,535)	(168,863)
Loss before other changes in net position	(96,033)	(84,582)	(67,620)	(43,321)	(291,556)
Permanent endowments	88,469	39,538	70,138	79,932	278,077
Increase (decrease) in net position	(7,564)	(45,044)	2,518	36,611	(13,479)
Net position – June 30, 2015	1,835,608	1,426,634	2,408,894	1,879,193	7,550,329
Net position – June 30, 2016	\$1,828,044	\$1,381,590	\$2,411,412	\$1,915,804	\$7,536,850
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	\$(93,199)	\$(10,622)	\$(57,870)	\$(59,289)	\$(220,980)
Noncapital financing activities	77,929	17,104	59,081	72,982	227,096
Capital and related financing activities				(970)	(970)
Investing activities	16,259	(13,527)	267	(11,509)	(8,510)
Net increase (decrease) in cash and cash equivalents	989	(7,045)	1,478	1,214	(3,364)
Cash and cash equivalents – June 30, 2015	2,668	159,072	4,098	32,438	198,276
Cash and cash equivalents – June 30, 2016	\$3,657	\$152,027	\$5,576	\$33,652	\$194,912

Additional information on the foundations can be found in the foundations' separately issued annual reports, which can be obtained by contacting the individual foundation.

21. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$1.6 billion at June 30, 2017. Amounts committed to the developer for the design, construction and financing of the facilities at one of its campuses is \$1.6 billion at June 30, 2017. The University has made a commitment to contribute \$87.9 million for an investment in a joint venture to fund construction projects.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2017 and 2016 were \$271.4 million and \$236.0 million, respectively. The terms of operating leases extend through March 2042.

Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows:

<i>(in thousands of dollars)</i>	
UNIVERSITY OF CALIFORNIA	
<i>Year Ending June 30</i>	
2018	\$248,401
2019	204,936
2020	168,626
2021	137,098
2022	98,912
2023-2027	216,638
2028-2032	68,538
2033-2037	45,504
2038-2042	19,898
Total	\$1,208,551

Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

The University and the campus foundations are contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

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:

<i>(in thousands of dollars)</i>	2017	2016	2015
TOTAL PENSION LIABILITY			
Service cost	\$1,807,143	\$1,710,241	\$1,589,267
Interest on the total pension liability	5,035,267	4,784,904	4,538,846
Difference between expected and actual experience	74,664	136,167	(112,155)
Changes of assumptions or other inputs			2,136,793
Benefits paid, including refunds of employee contributions	(3,320,990)	(3,105,641)	(2,976,992)
Net change in total pension liability	3,596,084	3,525,671	5,175,759
Total pension liability - beginning of year	69,230,762	65,705,091	60,529,332
Total pension liability - end of year	72,826,846	69,230,762	65,705,091
PLAN NET POSITION			
Contributions - employer	2,385,576	2,426,683	2,510,046
Contributions - member	891,987	845,036	793,012
Contributions - state	171,000	96,000	
Net investment income	7,866,281	(1,104,655)	1,993,801
Benefits paid, including refunds of employee contributions	(3,320,990)	(3,105,641)	(2,976,993)
Administrative expense	(44,128)	(48,341)	(48,283)
Net change in plan net position	7,949,726	(890,918)	2,271,583
Plan net position - beginning of year	54,164,532	55,055,450	52,783,867
Plan net position - end of year	62,114,258	54,164,532	55,055,450
Net pension liability - end of year	\$10,712,588	\$15,066,230	\$10,649,641
<i>(in thousands of dollars)</i>	2014	2013	2012
TOTAL PENSION LIABILITY			
Service cost	\$1,519,183	\$1,456,761	\$1,531,094
Interest on the total pension liability	4,316,728	4,112,461	3,871,146
Difference between expected and actual experience	(320,624)	(183,253)	(212,758)
Changes of assumptions or other inputs		(3,312,815)	4,923,778
Benefits paid, including refunds of employee contributions	(2,687,540)	(2,487,369)	(2,273,071)
Net change in total pension liability	2,827,747	(414,215)	7,840,189
Total pension liability - beginning of year	57,701,585	58,115,800	50,275,611
Total pension liability - end of year	60,529,332	57,701,585	58,115,800
PLAN NET POSITION			
Contributions - employer	1,580,876	810,056	1,851,460
Contributions - member	577,466	415,641	272,420
Contributions - state			
Net investment income	8,009,980	4,833,339	115,863
Benefits paid, including refunds of employee contributions	(2,687,540)	(2,487,369)	(2,273,071)
Administrative expense	(37,641)	(37,426)	(32,839)
Net change in plan net position	7,443,141	3,534,241	(66,167)
Plan net position - beginning of year	45,340,726	41,806,485	41,872,652
Plan net position - end of year	52,783,867	45,340,726	41,806,485
Net pension liability - end of year	\$7,745,465	\$12,360,859	\$16,309,315

The University's schedule of net pension liability for UCRP as of June 30 is:

<i>(in thousands of dollars)</i>	2017	2016	2015
Total pension liability	\$72,826,846	\$69,230,762	\$65,705,091
Plan net position	62,114,258	54,164,532	55,055,450
Net pension liability	\$10,712,588	\$15,066,230	\$10,649,641
Ratio of plan net position to total pension liability	85.3%	78.2%	83.8%
Covered payroll	\$11,301,506	\$10,689,424	\$10,047,570
Net pension liability as a percentage of covered payroll	94.8%	140.9%	106.0%

<i>(in thousands of dollars)</i>	2014	2013	2012
Total pension liability	\$60,529,332	\$57,701,585	\$58,115,800
Plan net position	52,783,867	45,340,726	41,806,485
Net pension liability	\$7,745,465	\$12,360,859	\$16,309,315
Ratio of plan net position to total pension liability	87.2%	78.6%	71.9%
Covered payroll	\$9,372,583	\$8,921,077	\$8,594,147
Net pension liability as a percentage of covered payroll	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 Payroll	Contributions as a Percentage of Covered Payroll
2017	\$2,654,710	\$2,556,576	\$98,134	\$11,301,506	23%
2016	2,610,953	2,522,683	88,270	10,689,424	24
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	1,851,459	(45,254)	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	
2008	23,934	2,657	21,277	7,612,726	

Notes to Schedule

Methods and assumptions used to establish "actuarially determined contribution" rates for the campus and medical center segment of UCRP:

Valuation date	Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.	
Actuarial cost method	Entry Age Actuarial Cost Method.	
Amortization method	Level dollar, closed periods.	
Remaining amortization period	20.86 years as of July 1, 2016. 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 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 or plan provisions are 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.	
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years. 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.	
	July 1, 2017 valuation date	July 1, 2016 valuation date
Investment rate of return	7.25%, net of pension plan investment expense, including inflation.	7.25%, net of pension plan investment expense, including inflation.
Inflation	3.00%.	3.00%.
Projected salary increases	3.75% - 6.15%, includes inflation.	3.75% - 6.15%, includes inflation.
Cost-of-living adjustments	2.00%.	2.00%.
Mortality	Post-retirement Healthy: RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, set forward one year.	Post-retirement Healthy: RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, set forward one year.
Other assumptions	Same as those used in the July 1, 2017 funding actuarial valuation. Same as those used in the July 1, 2016 funding actuarial valuation.	

UC-VERIP

The University's schedule of changes in net pension liability for UC-VERIP as of June 30 is:

<i>(in thousands of dollars)</i>	2017	2016	2015
TOTAL PENSION LIABILITY			
Interest on the total pension liability	\$2,463	\$2,533	\$2,704
Changes of benefit terms			
Difference between expected and actual experience	(189)	(650)	242
Changes of assumptions or other inputs			1,837
Benefits paid, including refunds of employee contributions	(4,738)	(4,937)	(5,081)
Net change in total pension liability	(2,464)	(3,054)	(298)
Total pension liability - beginning of year	35,008	38,062	38,360
Total pension liability - end of year	32,544	35,008	38,062
PLAN NET POSITION			
Net investment income	8,666	(1,425)	2,550
Benefits paid, including refunds of employee contributions	(4,738)	(4,937)	(5,081)
Administrative expense	(6)	(7)	(6)
Net change in plan net position	3,922	(6,369)	(2,537)
Plan net position - beginning of year	61,056	67,425	69,962
Plan net position - end of year	64,978	61,056	67,425
Net pension liability (asset) - end of year	\$(32,434)	\$(26,048)	\$(29,363)
<i>(in thousands of dollars)</i>	2014	2013	2012
TOTAL PENSION LIABILITY			
Interest on the total pension liability	\$2,857	\$3,052	\$3,227
Changes of benefit terms			11,186
Difference between expected and actual experience	(436)	(241)	172
Changes of assumptions or other inputs			1,267
Benefits paid, including refunds of employee contributions	(5,169)	(5,278)	(5,368)
Net change in total pension liability	(2,748)	(2,467)	10,484
Total pension liability - beginning of year	41,108	43,575	33,091
Total pension liability - end of year	38,360	41,108	43,575
PLAN NET POSITION			
Net investment income	11,035	7,144	90
Benefits paid, including refunds of employee contributions	(5,169)	(5,278)	(5,368)
Administrative expense	(6)	(7)	(7)
Net change in plan net position	5,860	1,859	(5,285)
Plan net position - beginning of year	64,102	62,243	67,528
Plan net position - end of year	69,962	64,102	62,243
Net pension liability (asset) - end of year	\$(31,602)	\$(22,994)	\$(18,668)

The University's schedule of net pension asset for UC-VERIP as of June 30 is:

<i>(in thousands of dollars)</i>	2017	2016	2015
Total pension liability	\$32,544	\$35,008	\$38,062
Plan net position	64,978	61,056	67,425
Net pension asset	\$(32,434)	\$(26,048)	\$(29,363)
Ratio of plan net position to total pension liability (asset)	199.7%	174.4%	177.1%

<i>(in thousands of dollars)</i>	2014	2013	2012
Total pension liability	\$38,360	\$41,108	\$43,575
Plan net position	69,962	64,102	62,243
Net pension asset	\$(31,602)	\$(22,994)	\$(18,668)
Ratio of plan net position to total pension liability (asset)	182.4%	155.9%	142.8%

The University is not required to make contributions to the UC-VERIP 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:

<i>(in thousands of dollars)</i>	2017	2016	2015	2014
TOTAL PENSION LIABILITY				
Service cost	\$9,910	\$10,410	\$9,448	\$9,274
Interest on the total pension liability	29,672	27,782	24,683	22,453
Changes of benefit terms	33	24	40	142
Difference between expected and actual experience	2,442	(3,690)	762	2,487
Changes of assumptions or other inputs		3,613	33,105	
Benefits paid, including refunds of employee contributions	(11,767)	(9,509)	(8,082)	(6,994)
Net change in total pension liability	30,290	28,630	59,956	27,362
Total pension liability - beginning of year	419,862	391,232	331,276	303,914
Total pension liability - end of year	450,152	419,862	391,232	331,276
PLAN NET POSITION				
Contributions - employer	28,800	24,000	18,000	14,500
Net investment income	41,256	214	11,797	48,704
Benefits paid, including refunds of employee contributions	(11,767)	(9,509)	(8,082)	(6,994)
Administrative expense	(2,727)	(1,816)	(1,222)	(718)
Net change in plan net position	55,562	12,889	20,493	55,492
Total plan net position - beginning of year	353,446	340,557	320,064	264,572
Total plan net position - end of year	409,008	353,446	340,557	320,064
Net pension liability - end of year	\$41,144	\$66,416	\$50,675	\$11,212

The schedule of net pension liability for the CHRCO Pension Plan as of June 30 is:

<i>(in thousands of dollars)</i>	2017	2016	2015	2014
Total pension liability	\$450,152	\$419,862	\$391,232	\$331,276
Plan net position	409,008	353,446	340,557	320,064
Net pension liability	\$41,144	\$66,416	\$50,675	\$11,212
Ratio of plan net position to total pension liability	90.9%	84.2%	87.0%	96.6%
Covered payroll	\$184,083	\$165,672	\$177,986	\$175,189
Net pension liability as a percentage of covered payroll	22.4%	40.1%	28.5%	6.4%

The schedule of employer contributions for the CHRCO Pension Plan as of June 30 is:

<i>(in thousands of dollars)</i>	2017	2016	2015	2014
Actuarially calculated employer contributions	\$5,642	\$7,823	\$12,200	\$21,300
Contributions in relation to the actuarially calculated employer contribution	28,800	24,000	18,000	14,500
Annual contribution deficiency (excess)	\$(23,158)	\$(16,177)	\$(5,800)	\$6,800
Covered payroll	\$184,083	\$165,672	\$177,986	\$175,189
Actual contributions as a percentage of covered payroll	15.6%	14.5%	10.1%	8.3%

Notes to schedule

Methods and assumptions used to determine contribution rates:

Valuation date:

Actuarially calculated contributions are calculated as of January 1 of the end of the fiscal year in which contributions are reported.

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, 2017 includes HATFA.

Contributions in relation to the actuarially determined contribution The amount shown is equal to the overall dollar amount 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 year's 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 5.00%, including inflation through 2017, 4.00% afterward.

Cost-of-living adjustments N/A.

Mortality RP-2016 Healthy Annuitant Mortality Table for males or females, as appropriate, with generational adjustments for mortality improvements based on Scale AA.

OCERS

The schedule of the University's proportionate share of OCERS' net pension liability is presented below:

(in thousands of dollars)

AS OF JUNE 30	PROPORTION OF THE NET PENSION LIABILITY	PROPORTIONATE SHARE OF NET PENSION LIABILITY	COVERED PAYROLL	PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF ITS COVERED PAYROLL	PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY
2017	0.3%	\$18,057	\$44	41,038.6%	34.5%
2016	0.3%	18,092	285	6,347.5%	34.8%

University Retiree Health Benefits Plan

The schedule of changes in the net retiree health benefits liability includes multi-year trend information about whether the net retiree health benefits liability is increasing or decreasing over time. The University's net retiree health benefits liability includes liabilities for campuses, medical centers and LBNL. The University's schedule of changes in the net retiree health benefits liability as of, and for, the year ending June 30 is:

(in thousands of dollars)	2017	2016	2015
TOTAL RETIREE HEALTH BENEFIT LIABILITY			
Service cost	\$1,004,644	\$830,041	\$702,935
Interest on the total retiree health benefits liability	646,279	735,294	719,853
Difference between expected and actual experience	101,280	(1,948,111)	
Changes of assumptions or other inputs	(3,827,924)	3,925,503	1,402,476
Retiree contributions	72,716	65,705	56,340
Benefits paid	(467,846)	(451,166)	(435,189)
Net change in total retiree health benefits liability	(2,470,851)	3,157,266	2,446,415
Total retiree health benefits liability - beginning of year	21,867,989	18,710,723	16,264,308
Total retiree health benefits liability - end of year	19,397,138	21,867,989	18,710,723
PLAN NET POSITION			
University contributions	432,953	410,945	367,416
Retiree contributions	72,716	65,705	56,340
Net investment income	606	155	41
Insurance premiums	(467,846)	(451,166)	(435,189)
Other deductions	(4,256)	(3,743)	(3,147)
Net change in UCRHBT net position	34,173	21,896	(14,539)
UCRHBT net position - beginning of year	72,541	50,645	65,184
UCRHBT net position - end of year	106,714	72,541	50,645
Net retiree health benefits liability - end of year	\$19,290,424	\$21,795,448	\$18,660,078

The University's schedule of net retiree health benefits liability as of June 30 is:

(in thousands of dollars)	2017	2016	2015
Total retiree health benefits liability	\$19,397,138	\$21,867,989	\$18,710,723
UCRHBT net position	106,714	72,541	50,645
Net retiree health benefits liability	\$19,290,424	\$21,795,448	\$18,660,078
Ratio of UCRHBT net position to total retiree health benefits liability	0.6%	0.3%	0.3%
Covered payroll	\$11,495,997	\$10,689,424	\$10,047,570
Net retiree health benefits liability as a percentage of covered payroll	167.8%	203.9%	185.7%

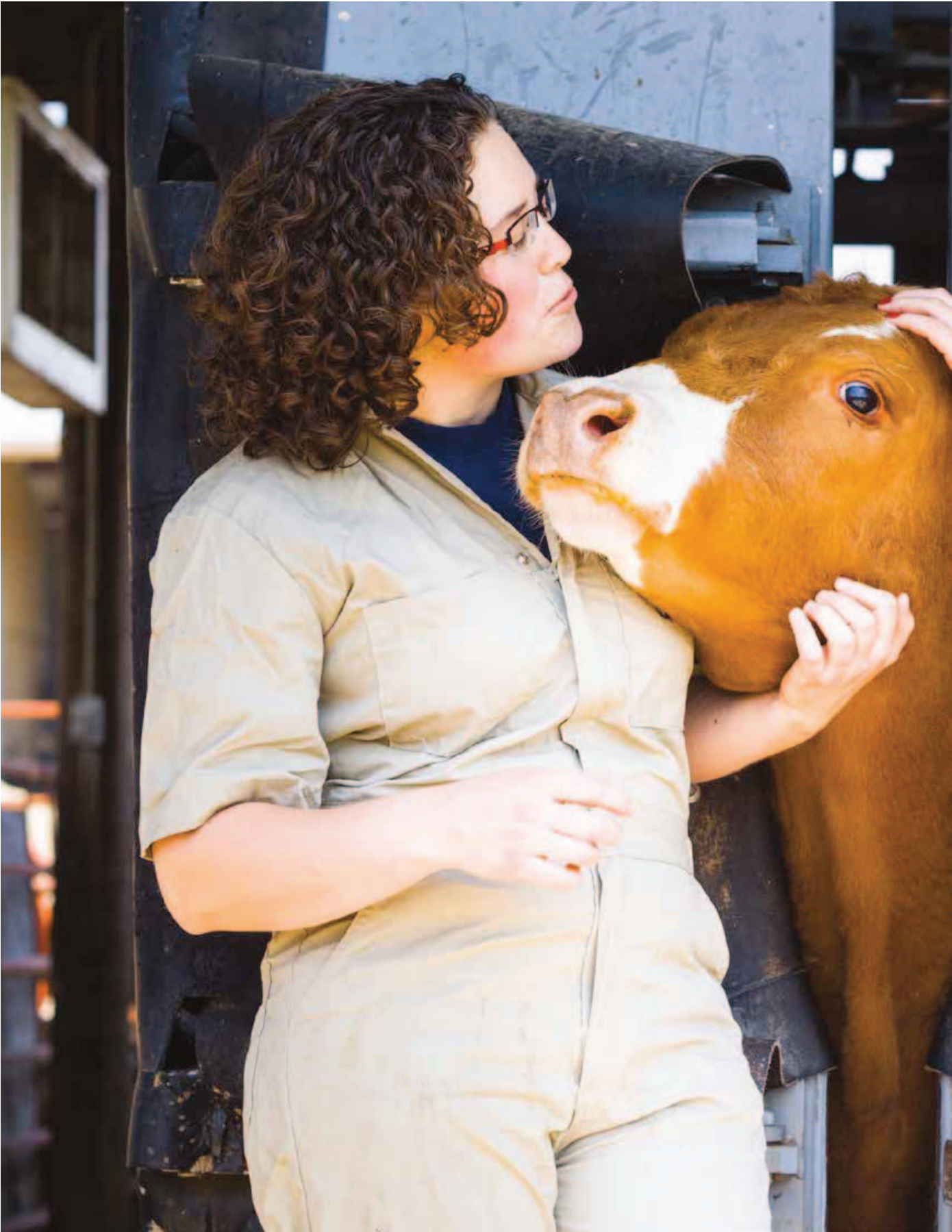
University of California Retiree Health Benefit Trust

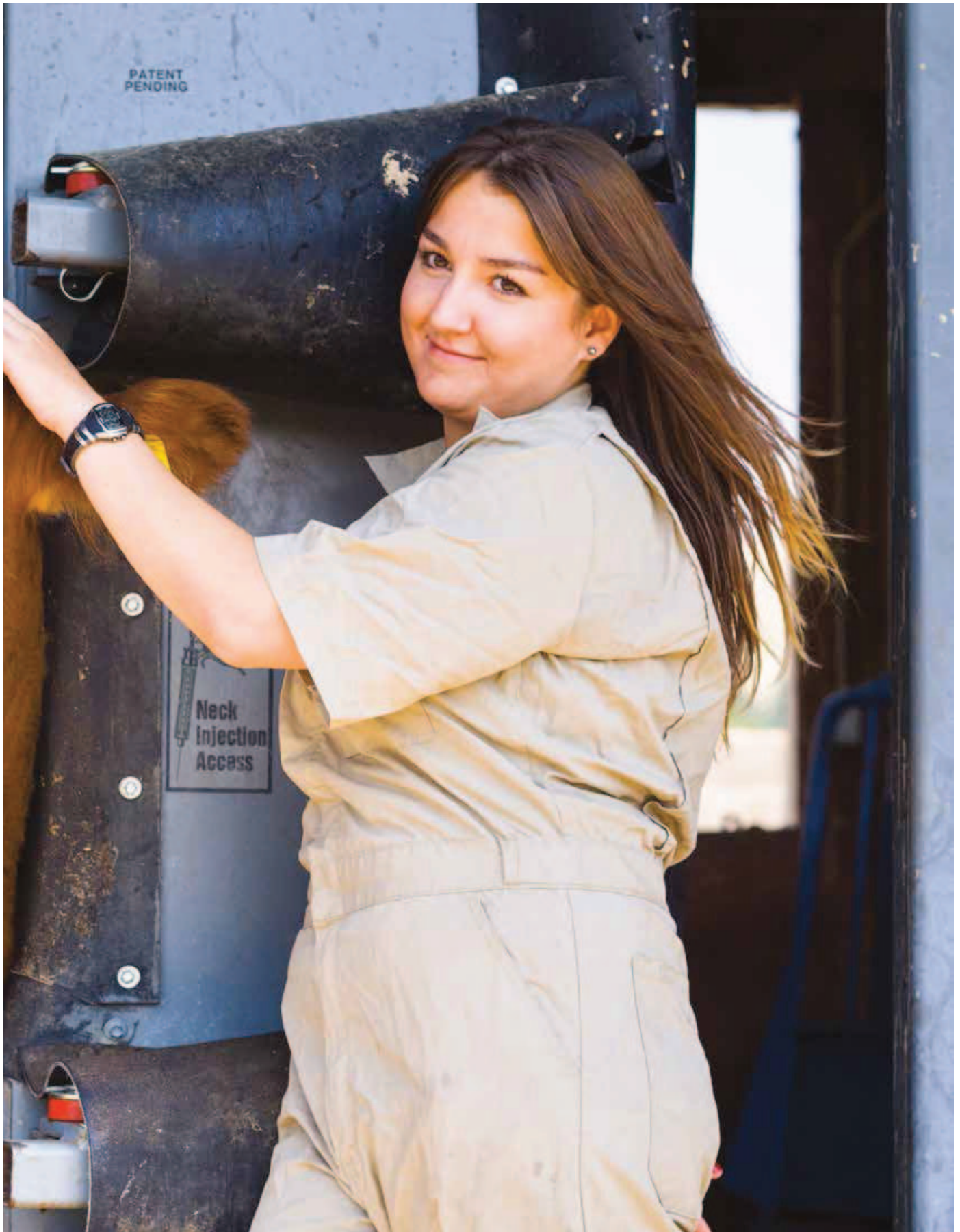
The schedule of changes in the net retiree health benefits liability includes multi-year trend information about whether the trust assets are increasing or decreasing over time relative to the total retiree health benefits liability for the campuses and medical centers. UCRHBT's schedule of changes in net retiree health benefit liability as of, and for, the year ending June 30 is:

<i>(in thousands of dollars)</i>	2017	2016	2015
TOTAL RETIREE HEALTH BENEFIT LIABILITY			
Service cost	\$981,745	\$806,817	\$683,220
Interest on the total retiree health benefits liability	625,947	711,365	695,999
Difference between expected and actual experience	95,254	(1,875,009)	
Changes of assumptions or other inputs	(3,707,921)	3,798,113	1,358,761
Retiree contributions	69,968	65,705	56,340
Benefits paid	(447,604)	(433,849)	(418,244)
Net change in total retiree health benefits liability	(2,382,611)	3,073,142	2,376,076
Total retiree health benefits liability - beginning of year	21,168,712	18,095,570	15,719,494
Total retiree health benefits liability - end of year	18,786,101	21,168,712	18,095,570
PLAN NET POSITION			
University contributions	415,459	393,628	350,471
Retiree contributions	69,968	65,705	56,340
Net investment income	606	155	41
Insurance premiums	(447,604)	(433,849)	(418,244)
Other deductions	(4,256)	(3,743)	(3,147)
Net change in UCRHBT net position	34,173	21,896	(14,539)
UCRHBT net position - beginning of year	72,541	50,645	65,184
UCRHBT net position - end of year	106,714	72,541	50,645
Net retiree health benefits liability - end of year	\$18,679,387	\$21,096,171	\$18,044,925

UCRHBT's schedule of net retiree health benefits liability as of June 30 is:

<i>(in thousands of dollars)</i>	2017	2016	2015
Total retiree health benefits liability	\$18,786,101	\$21,168,712	\$18,095,570
UCRHBT net position	106,714	72,541	50,645
Net retiree health benefits liability	\$18,679,387	\$21,096,171	\$18,044,925
Ratio of UCRHBT net position to total retiree health benefits liability	0.6%	0.3%	0.3%
Covered payroll	\$11,196,485	\$10,396,827	\$9,758,795
Net retiree health benefits liability as a percentage of covered payroll	166.8%	202.9%	184.9%





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PENDING

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Regents and Officers

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(In alphabetical order of last name)

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William De La Pena
Gareth Elliott
Howard “Peter” Guber
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Sherry L. Lansing
Monica Lozano
Hadi Makarechian
Eloy Ortiz Oakley
Lark Park
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John A. Perez
Bonnie M. Reiss
Richard Sherman
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Gavin Newsom, *Lieutenant Governor*
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Francesco Mancina, *President,*
Alumni Associations of the University of California
Albert Lemus, *Vice President,*
Alumni Associations of the University of California

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Alumni Associations of the University of California
Darin Anderson, *Secretary,*
Alumni Associations of the University of California
Devon Graves, *Student Regent Designate*

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Robert May, *Vice Chair, Assembly of the Academic Senate*

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Jagdeep Singh Bachher, *Chief Investment Officer and Vice President-Investments*
Anne Shaw, *Secretary and Chief of Staff*

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Rachael Nava, *Executive Vice President-Chief Operating Officer*
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Michael Witherell, *Director, Lawrence Berkeley National Laboratory*

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Loan Agreement, the Base Rent Assignment Agreement, the Continuing Disclosure Agreement, the Ground Lease, the Sub-Ground Lease and the Space Lease, which may not be 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, the Base Rent Assignment Agreement, the Continuing Disclosure Agreement, the Ground Lease, the Sub-Ground Lease and the Space Lease, for a full and complete statement of their respective provisions.

CERTAIN DEFINITIONS

The following defined terms are used in the Indenture, the Loan Agreement, the Base Rent Assignment Agreement or the Continuing Disclosure Agreement:

“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 will 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 will 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.

“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 will contain the specimen signature of such person, will 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.

“Balance Sheet” means, as of any date, the balance sheet of the Borrower’s assets and liabilities as of such date prepared by the Borrower in accordance with generally accepted accounting principles, consistently applied, in a manner consistent with the Borrower’s most recently audited financial statements.

“Base Rent” means, the amount payable by The Regents, as tenant, pursuant to the Space Lease in an amount equal to the scheduled payments of principal and interest due on the Bonds.

“Base Rent Assignment Agreement” means that certain Base Rent Assignment Agreement, dated as of December 14, 2017, by and between the Developer, as landlord and assignor, and the Trustee, as assignee, as originally executed or as it may from time to time be supplemented or 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, the Loan Agreement and the Base Rent Assignment Agreement.

“Bond Resolution” means the resolution of the Issuer adopted on November 28, 2017 pursuant to the Act which authorizes the issuance of the Bonds.

“Bonds” means the California Infrastructure and Economic Development Bank Revenue Bonds (UCSF 2130 Third Street), Series 2017 issued under the Indenture.

“Book-Entry Bonds” means any Bonds which are then held in book-entry form as provided in the Indenture.

“Borrower” means (i) Campus Facilities Improvement Association, a California non-profit public benefit corporation, and its successors and assigns; and (ii) any surviving, resulting or transferee entity as provided in the Loan Agreement.

“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 is required or authorized to be closed or a day on which the New York Stock Exchange is closed.

“CFIA Ground Lease” means the Master Ground Lease, between The Regents, as ground lessor, and the Borrower, as ground lessee, and relating to the Project, as originally executed or as it may from time to time be supplemented or amended.

“Closing Date” means the date of issuance and delivery of the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of December 1, 2017, 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.

“Costs” means, with respect to the Project, the sum of the items, or any such item, of the cost of the designing, acquisition, planning, permitting, entitling, constructing, equipping, renovation, alteration, and improvement of the Project and such other costs as and to the extent permitted by the Act, including reimbursement of the Borrower for amounts expended for such costs and also including interest accruing in whole or in part on the Bonds prior to the Final Completion Date, but will not include any Costs of Issuance.

“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, initial fees and charges of the Trustee, 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.

“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.

“Developer” means, SKS/Prado 2130 Third, LLC, a Delaware limited liability company, or its successors and assigns.

“Developer Ground Lease” means the Ground Lease Agreement, between the Borrower, as ground sublessor, and the Developer, as ground sublessee, and relating to the Project, as originally executed or as it may from time to time be supplemented or amended.

“Development Agreement” means that certain Lease Disposition and Development Agreement, by and among the Borrower, the Developer and The Regents, as originally executed or as it may from time to time be supplemented or amended.

“Disbursement Agreement” means that certain Disbursement Agreement, dated as of December 14, 2017, by and among the Borrower, the Developer and the Trustee, as originally executed or as it may from time to time be supplemented or amended.

“DTC” means The Depository Trust Company and its successors and assigns.

“DTC Participants” means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as securities depository.

“Electronic Means” means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys used by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

“Environmental Regulation” means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances, chemical waste, materials or substances.

“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 therein.

“Final Completion Date” means the date that all of the Costs of the Project (including any retainages) to be funded from proceeds of the Bonds have been paid, as that date will be certified by the Borrower as provided in the Loan Agreement.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the Borrower.

“General Cost Subaccount” means the subaccount of the Construction Fund which is established pursuant to the Indenture.

“Hazardous Substances” means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i)

pose a hazard to the Project or to Persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Environmental Quality Act (“CEQA”), Cal. Public Resources Code § 21000 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other Person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

“**Indenture**” means the Indenture, 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, commencing May 15, 2018.

“**Issue Date**” means the date of original issuance of the Bonds.

“**Issuer**” means the California Infrastructure and Economic Development Bank, and its successors and assigns.

“**Issuer Annual Fee**” means an amount equal to \$3,500 annually while the principal amount of the Bonds Outstanding exceeds \$200,000,000, \$3,000 annually while the principal amount of the Bonds Outstanding exceeds \$50,000,000 and is less than or equal to \$200,000,000, \$2,500 annually while the principal amount of the Bonds Outstanding exceeds \$30,000,000 and is less than or equal to \$50,000,000, \$1,000 annually while the principal amount of the Bonds Outstanding exceeds \$10,000,000 and is less than or equal to \$30,000,000, and thereafter \$500, in each case payable in accordance with the Loan Agreement.

“**Loan Agreement**” means the Loan Agreement, 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.

“**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 will be dissolved or liquidated or will no longer perform the functions of a nationally-recognized statistical rating organization, then the term “Moody’s” will 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 Project or any part thereof, less any costs reasonably expended by the Borrower to receive such proceeds, as determined by the Borrower in accordance with the Space Lease.

“Notice by Mail” or “notice” of any action or condition “by Mail” means 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 Counsel” means a written opinion of counsel (who may be counsel for the Borrower) acceptable to the Issuer and the Borrower. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

“Outstanding,” when used as of any particular time with reference to the Bonds (subject to the certain provisions of the Indenture), 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 in lieu of or in substitution for which other Bonds will 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.

“Permitted Encumbrances” has the same meaning as the term “Permitted Title Exceptions” as defined in the Development Agreement.

“Permitted Investments” means any of the following:

- (1) Direct obligations of, or obligations the timely payment of principal of and interest on which is fully and unconditionally guaranteed by, the United States of America;
- (2) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises;
- (3) Direct obligations of, or obligations the timely payment of principal of and interest on which is fully and unconditionally guaranteed by, any state of the United States of America or any subdivision or agency thereof whose long-term bonds, notes or other evidences of indebtedness are rated within the three highest Rating Categories by Moody’s and Standard & Poor’s;
- (4) Demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, and certificates of deposit or bankers acceptances of depository institutions, including the Trustee or any of its affiliates, rated in the AA or Aa2 long-term ratings category or higher by S&P or Moody’s, respectively, or which are fully FDIC-insured;
- (5) Bankers’ Acceptances with a maximum term of 180 days issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest letter and number rating category by Moody’s and Standard & Poor’s;
- (6) Repurchase agreements fully secured by collateral security described in clause (1) of this definition, which collateral (a) is held by the Trustee or an agent thereof during the term of such 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 104% of the amount so invested;
- (7) Investment agreements with financial institutions rated within the two highest Rating Categories by Moody’s and Standard & Poor’s; provided that if such ratings fall below the three highest long-term Rating

Categories, the investment agreement will allow the Trustee, at the direction of the Borrower, the option to replace such financial institution or will provide for such investment to be fully collateralized by investments described in clause (1) and clause (2) 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;

(8) Money Market Funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of AAAM-G, AAA-m or AA-m, and if rated by Moody's of Aaa, Aa1 or Aa2;

(9) Commercial paper rated at the time of purchase in the highest Rating Category by Moody's and Standard & Poor's; and

(10) The short term investment pool of The Regents.

"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 or agency of the Trustee at which, at any particular time, the transactions contemplated by the Indenture will 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.

"Project" has the meaning set forth in the Loan Agreement. The term "Project" will also include such alternative or additional facilities, equipment, improvements and property as are permitted in accordance with the Loan Agreement.

"Project Documents" has the same meaning as the term "Transaction Documents" as defined in the Development Agreement.

"Rating Agency" means, with respect to the Bonds, Fitch, 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 Fitch, 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.

"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 fifteenth day (whether or not a Business Day) of the month preceding such Interest Payment Date.

"Reserved Rights" means (i) the Issuer's right to obtain notices, reports, certifications, information, inspections, and opinions and Additional Payments and indemnification; (ii) the Issuer's right to provide approvals and consents; and (iii) the Issuer's nonexclusive right to enforce the provisions of the Tax Agreement and Loan Agreement, provided, that the Issuer will retain the exclusive right, as the taxpayer pursuant to the Internal Revenue Service Form 8038, which will be completed by or on behalf of the Issuer in connection with the issuance of the Bonds, to communicate with the Internal Revenue Service in any investigation of the Bonds by the Internal Revenue Service.

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

“Revenues” means all receipts, installment payments and other income derived by the Issuer or the Trustee 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 Operating Fund, the Rebate Fund and any accounts therein), including all Loan Payments, and any other payments made by the Borrower as contemplated by the Loan Agreement, and all payments of Base Rent made by The Regents pursuant to the Space Lease; provided, however, that such term will not include Additional Payments or any monies 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.

“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.

“Space Lease” means, that certain Lease Agreement, by and between the Developer, as landlord, and The Regents, as tenant.

“Standard & Poor’s” means Standard & Poor’s Ratings Service, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a nationally-recognized statistical rating organization, then the term “Standard & Poor’s” will be deemed to refer to any other nationally-recognized statistical rating organization selected by the Borrower.

“State” means the State of California.

“Tax Agreement” means the Tax Certificate and Agreement related to the Bonds, dated as of the Issue Date, by and among the Issuer, The Regents 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.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from Sinking Fund Installments.

“The Regents” means, The Regents of the University of California, a corporation organized and existing under and by virtue of Article IX, Section 9.01 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**” means the Permitted Investments described in clause (1) of the definition thereof.

“**Yield**” has the meaning ascribed to such term by Section 148(h) of the Code.

THE INDENTURE

Construction Fund, Costs of Issuance Fund and Operating Fund

Construction Fund. The Trustee will establish the “UCSF 2130 Third Street Construction Fund” (the “Construction Fund”) and within the Construction Fund the “General Cost Subaccount” (the “General Cost Subaccount”), and the “Series 2017 Development Cost Subaccount” (the “Series 2017 Development Cost Subaccount”). The Trustee will establish within the Construction Fund such additional accounts and subaccounts as are specified in the Indenture or in any written direction from an Authorized Borrower Representative, as may be necessary or convenient (as determined by the Borrower), or to carry out the purposes of the Tax Agreement, the Disbursement Agreement and the Indenture.

Before each payment is made from the Construction Fund (including any account established therein) by the Trustee, there will be filed with the Trustee a requisition in substantially the form as provided in the Indenture, together with such additional consents, reviews, approvals or certifications as the Borrower in its discretion may require. Requisitions from the Development Cost Subaccount will also satisfy the requirements of the Disbursement Agreement.

Each such requisition will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Borrower Representative, the Trustee will pay the amount set forth therein as directed by the terms thereof.

Upon the receipt by the Trustee of a certificate conforming with the requirements of the Loan Agreement, and after payment of Costs payable from the Construction Fund or provision having been made for payment of such Costs not yet due by retaining the amount of such Costs in the Construction Fund or otherwise as directed in such certificate, the Trustee will transfer any remaining balance in the Construction Fund, including all subaccounts established therein, into a separate account within the Bond Fund, which the Trustee will establish and hold in trust, and which will be entitled the “Surplus Account.” The moneys in the Surplus Account will be used and applied (unless some other application of such moneys is requested by the Borrower with approval of the University and would not, in the Opinion of Bond Counsel addressed to the Issuer, 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 relating to investment of moneys to the contrary, the moneys in the Surplus Account will be invested at the written instruction of the Borrower at a yield no higher than the yield on the Outstanding Bonds (unless in the Opinion of Bond Counsel addressed to the Issuer, 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 will be deposited in such Surplus Account and expended or reinvested as provided above.

In the event of redemption of all the Bonds or an Event of Default which causes acceleration of the Bonds, any moneys then remaining in the Construction Fund will be transferred to the Surplus Account within the Bond Fund, and all moneys in the Bond Fund will be used to pay or redeem Bonds.

Costs of Issuance Fund. The Trustee will establish “UCSF 2130 Third Street Costs of Issuance Fund” (the “Costs of Issuance Fund”). The moneys in the Costs of Issuance Fund and the accounts therein will 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 signed by an Authorized Borrower Representative, together with such additional consents, reviews, approvals or certifications as the Borrower in its discretion may require. All payments from the Costs of Issuance Fund will be reflected in the Trustee’s regular accounting statements. Unless otherwise applied in accordance with a Certificate of the Borrower filed with the Trustee and The Regents, any amounts remaining in the Costs of Issuance Fund six months following the Issue Date will be transferred to the General Cost Subaccount within the Construction Fund and applied in accordance with the Indenture.

Operating Fund. The Trustee will establish “UCSF 2130 Third Street Operating Fund” (the “Operating Fund”) and within the Operating Fund the Trustee will establish two subaccounts, namely, the Proceeds Subaccount and the Non-Proceeds Subaccount. The Operating Fund, and the Proceeds Subaccount and the Non-Proceeds Subaccount therein, will be maintained separately from the other funds, accounts and subaccounts created under the Indenture. Any proceeds of the Bonds or investment earnings thereon that are deposited into the Operating Fund will be deposited into the Proceeds Subaccount and any other moneys deposited into the Operating Fund will be deposited into the Non-Proceeds Subaccount. The moneys in the Operating Fund and any accounts therein will be held by the Trustee for the benefit of the Borrower and applied to the payment of costs and expenses of the Borrower, upon a requisition filed with the Trustee in substantially the form attached to the Indenture, signed by an Authorized Borrower Representative, together with such additional consents, reviews, approvals or certifications as the Borrower in its discretion may require. Each such requisition will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts. All payments from the Operating Fund will be reflected in the Trustee’s regular accounting statements. Neither the Operating Fund nor the subaccounts therein are pledged as security for the Bonds.

Pledge and Assignment; Establishment of Funds

Pledge and Assignment. (a) Subject to the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues, and all amounts and securities in the funds held by the Trustee under the Indenture (other than the Operating Fund and the Rebate Fund), are irrevocably pledged to the punctual payment of the principal of and interest on the Bonds. Said pledge will 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 thereof. All Revenues and the other assets pledged under the Indenture will be held in trust for the benefit of the Owners from time to time of the Bonds but will nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture relating to Pledge and Assignment.

(b) The Issuer transfers, assigns and sets 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; and any Revenues collected or received by the Issuer will be deemed to be held, and to have been collected or received by the Issuer for the benefit of the Owners of the Bonds and will forthwith be paid by the Issuer to the Trustee. Moreover, the Trustee does acknowledge receipt in trust from the Developer of the Base Rent Assignment Agreement. Such assignments are to the Trustee solely in its capacity as Trustee under the Indenture and are subject to the provisions of the Indenture. In taking or refraining from taking any action under the Loan Agreement or the Base Rent Assignment Agreement pursuant to such assignments, the Trustee will be entitled to the protections and limitations from liability afforded it as Trustee under the Indenture. The Trustee also will be entitled to 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, the payment of Base Rent pursuant to the Space Lease and any other security agreement with respect to the Loan Agreement, the 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 Revenues. No rights of the Issuer under the Tax Agreement, including those referenced in the Loan Agreement, are assigned to the Trustee.

(c) The Borrower may at its sole discretion from time to time deliver to the Trustee such additional or other security which is permitted by the Indenture to secure the payment of the principal of and interest on the Bonds and any such additional or other security delivered by the Borrower will be pledged to such payment,

provided that there is delivered to the Trustee and the Issuer an Opinion of Bond Counsel to the effect that the delivery of such additional or other security does not, in and of itself, adversely affect the Tax-Exempt status of interest on any of the Bonds.

(d) The Bonds will not constitute a debt or liability of the State or any political subdivision thereof other than the limited obligation of the Issuer payable solely from Revenues and the other amounts pledged therefor under the Indenture, or a pledge of the faith and credit of the State or any political subdivision thereof, but will be payable solely from the funds provided therefor in the Indenture. Neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of, or interest on, the Bonds; and no Owner or Beneficial Owner of any Bond will have any right to demand payment of the principal of, or interest on, the Bonds by the Issuer, the State or any political subdivision thereof, out of any funds to be raised by taxation or appropriation. The issuance of the Bonds will not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation therefor or to make any appropriation for their payment.

Notwithstanding anything contained in the Indenture, the Issuer will not be required to advance any moneys derived from any source of income of any governmental body or political subdivision of the State or the Issuer other than the Revenues and Additional Payments, for any of the purposes mentioned in the Indenture, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. The Bonds are not general obligations of the Issuer, and are payable from and secured only by the Revenues and the other assets pledged for such payment under the Indenture.

Bond Fund. Upon the receipt thereof, the Trustee will deposit all Revenues in the "UCSF 2130 Third Street Bond Fund" (the "Bond Fund"), which the Trustee will establish and maintain and hold in trust, and which will be disbursed and applied only as authorized in the Indenture. Except as provided in the Indenture, moneys in the Bond Fund will be used solely for the payment of the principal of and interest on the Bonds as the same will become due whether at maturity or upon redemption or acceleration.

The Trustee will 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 and all of the Base Rent received by the Trustee pursuant to the Base Rent Assignment Agreement or otherwise, for deposit in the Bond Fund, including Base Rent paid by The Regents pursuant to the Space Lease, 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.

In making payments of principal of and interest on the Bonds, the Trustee will use any Revenues received by the Trustee.

Except to the extent that such moneys are required to be: (i) held in the Capitalized Interest Account or 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 Interest Payment Date or to effect the defeasance of Bonds pursuant to the Indenture relating to defeasance of the Bonds; 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 or after the day immediately following an Interest Payment Date, the Trustee, unless otherwise instructed by the Borrower, will deposit in the Non-Proceeds Subaccount within the Operating Fund (free and clear of the pledge and lien of the Indenture) any moneys then on deposit in the Bond Fund.

The Trustee will establish and maintain a separate account in the Bond Fund to be known as the "Capitalized Interest Account". The Trustee will transfer moneys from the Capitalized Interest Account in the amounts set forth in the Indenture to the Bond Fund for payment of interest on the Bonds due on the dates set forth in the Indenture.

Any surplus moneys in the Capitalized Interest Account may be transferred by the Trustee to the Construction Fund upon the Written Request of the Borrower and an approving Opinion of Bond Counsel and, if necessary, a new schedule of transfers from the Capitalized Interest Account to the Bond Fund will be included therewith.

Redemption Fund. The Trustee will establish, maintain and hold in trust a fund separate from any other fund established and maintained under the Indenture designated as the “Redemption Fund” and within the Redemption Fund an Optional Redemption Account. All amounts deposited in the Optional Redemption Account will be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture relating to the redemption of the Bonds, at the next succeeding date of redemption and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account; provided that, at any time prior to giving such notice of redemption, the Trustee will, upon written direction of the Borrower, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds; and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Bond Fund and credited against Loan Payments in order of their due date as set forth in a Request of the Borrower.

Investment of Moneys. Subject to provisions in the Indenture, any moneys in any of the funds and accounts established pursuant to the Indenture will be invested upon the written direction of the Borrower signed by an Authorized Borrower Representative (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 will hold such moneys in cash. Moneys in any fund or account established pursuant to the Indenture will 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 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 will be valued at least once each Fiscal Year at the market value thereof.

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 will be credited or charged to the respective fund or account from which such investments are made; provided that, any interest, profit or loss on any investments of moneys in the Bond Fund will be applied in accordance with the Indenture; and provided further that, any interest, profit or loss on any investments of moneys in the Construction Fund (and all subaccounts therein) will be applied to the Capitalized Interest Account. The Trustee may sell or present for redemption any obligations so purchased whenever it will be necessary in order to provide moneys to meet any payment, and the Trustee will 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 the Indenture relating to investment of moneys through or with its own commercial banking or investment departments.

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, the Issuer and the Borrower specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Borrower and its accountants and auditors as designated in a Certificate of the Borrower filed with the Trustee, 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, will 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 will have been made as provided in the Indenture relating to defeasance of the Bonds, (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.

Covenants of the Issuer

Payment of Principal and Interest. The Issuer will punctually pay, but only out of Revenues and the other assets pledged therefor pursuant to the Indenture, the principal of and interest on every Bond issued thereunder at the times and places and in the manner provided in the Indenture and in the Bonds according to the true intent and meaning thereof. All such payments will 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 will be delivered to the Trustee and will forthwith be cancelled by the Trustee, who will deliver a certificate evidencing such cancellation to the Borrower and, if requested, 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 will not, directly or indirectly, extend or assent to the extension of the time for the payment of any claim for interest on any of the Bonds, and will 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 will be extended or funded, whether or not with the consent of the Issuer, such claim for interest so extended or funded will 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 will not have been so extended or funded. Nothing in this paragraph will 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 will not constitute an extension of the maturity of the Bonds under this paragraph.

Preservation of Revenues: Rights Under the Loan Agreement.

(a) The Issuer will not waive any provision of the Loan Agreement (except for provisions relating solely to the Reserved Rights) or take any action to interfere with or impair the pledge and assignment of Revenues under the Indenture and the assignment to the Trustee of rights under the Loan Agreement and the Base Rent Assignment Agreement, or the Trustee's enforcement of any such rights thereunder, without the prior written consent of the Trustee; provided, however, the Issuer will not be obligated to take or to refrain from taking any action required under the Indenture without receipt by the Issuer from the Borrower 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.

(b) The Loan Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Borrower, and reference is made to the same for a detailed statement of said covenants and obligations of the Borrower thereunder, and the Issuer agrees that the Trustee in its name or in the name of the Issuer may enforce all rights of the Issuer assigned to the Trustee or otherwise permitted by the Issuer and all obligations of the Borrower under and pursuant to the Loan Agreement for and on behalf of the Owners, whether or not the Issuer is in default under the Indenture. The Trustee agrees, subject to any applicable provisions for the benefit of the Trustee set forth in the Indenture, to follow any instructions of the Borrower given in accordance with the Loan Agreement.

Compliance with Indenture: Performance of Covenants. (a) To the extent it is within the control of the Issuer, the Issuer will 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, will not suffer or permit any default to occur under the Indenture, but will faithfully observe and perform all the covenants, conditions and requirements thereof.

(b) 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 under the Indenture and in all of its proceedings pertaining thereto;

provided, however, that except for the matters set forth in the Indenture relating to payment of principal of and interest on the Bonds, the Issuer will not be obligated to take any action or execute any instrument pursuant to any provision of the Indenture until it will have been requested to do so by the Borrower or by the Trustee, and will have received any instrument to be executed and, at the option of the Issuer, will have received from the party requesting such action or execution assurance satisfactory to the Issuer that the Issuer will be reimbursed for its reasonable expenses, including legal counsel fees incurred or to be incurred in connection with taking such action or executing such instrument. The Issuer covenants that it is duly authorized under the Constitution and the laws of the State, including particularly the Act and the Bond Resolution, to issue the Bonds authorized and to execute the Indenture, to grant the security interest provided therein, to assign and pledge the Loan Agreement (except for Reserved Rights) and to assign and pledge the amounts assigned by the Indenture and pledged in the manner and to the extent set forth in the Indenture; that all action on its part for the issuance of the Bonds and the execution and delivery of the Indenture has been duly and effectively taken, and that the Bonds in the hands of the owners thereof are and will be valid and enforceable obligations of the Issuer according to the terms thereof and of the Indenture. Anything contained in the Indenture to the contrary notwithstanding, it is understood that none of the covenants of the Issuer contained in the Indenture are intended to create a general obligation of the Issuer.

Tax Covenants; Rebate Fund. (a) The Issuer covenants with all Persons who hold or at any time held Bonds that the Issuer will not directly or indirectly use the proceeds of any of the Bonds or any other funds of the Issuer or, to the extent within its control, 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 will require the Issuer to use any moneys other than Revenues (to the extent permitted 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; provided, however, that with regard to the covenants of the Issuer to act or refuse to act in a 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 explicitly required or prohibited. Any requirement that the Issuer will not permit or allow any action, or similar requirement, will pertain solely to the actions of the Issuer and the Issuer will have no obligation to prevent, or attempt to prevent, any action by the Borrower.

The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated “UCSF 2130 Third Street Rebate Fund” (herein called the “Rebate Fund”). Within the Rebate Fund, the Trustee will maintain such accounts as will 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 paragraph (c) below, all money at any time deposited in the Rebate Fund will 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 will have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund will be governed by the Indenture, by the Loan Agreement and by the Tax Agreement. The Trustee will 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 will not be required to take any actions thereunder in the absence of written directions from the Borrower. The Trustee will have no obligation to perform or confirm any rebate calculations thereunder.

Notwithstanding any provision of the Indenture, including in particular the defeasance of the Bonds as set forth therein, the obligation of the Borrower, as set forth in the Loan Agreement relating to rebate, to pay the Rebate Requirement to the United States of America and to comply with all other requirements of the Indenture and the Loan Agreement and the Tax Agreement will survive the defeasance or payment in full of the Bonds.

Notwithstanding any provisions of the Indenture and the Loan Agreement, if the Borrower will provide to the Issuer and the Trustee an Opinion of Bond Counsel that any specified action required under the Indenture or the Loan Agreement 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 of the Indenture; and the covenants thereunder will be deemed to be modified to that extent.

Other Liens. So long as any Bonds are Outstanding, the Issuer will 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.

Right to Payment under Loan Agreement; Further Assurances. (a) The Issuer covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, at the expense of the Borrower, such indentures supplemental to the Indenture and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, conveying, pledging, assigning and confirming unto the Trustee all and singular the rights assigned by the Indenture and the amounts assigned and pledged by the Indenture to the payment of the principal of, premium, if any, and interest on the Bonds. The Issuer covenants and agrees that, except as provided in the Indenture and in the Loan Agreement, it will not sell, convey, mortgage, encumber or otherwise dispose of any part of the Revenues or its rights under the Loan Agreement.

Except to the extent otherwise provided in the Indenture, the Issuer will 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 will 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.

Default

Events of Default; Acceleration; Waiver of Default. (a) Each of the following events will constitute an “Event of Default” under the Indenture:

(i) Failure to make payment of any installment of interest upon any Bond when such payment will have become due and payable;

(ii) Failure to make due and punctual payment of the principal of any Outstanding Bond when such payment will 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;

(iii) The occurrence of an “Event of Default” under the Loan Agreement, as specified in the Indenture; or

(iv) 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 or in the Bonds, and the continuance of such default for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the Issuer and the Borrower by the Trustee, or to the Issuer, the Borrower and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding;

No default specified in (iv) above will constitute an Event of Default unless the Issuer will have failed to correct such default within the applicable 30-day period; provided, however, that if the default will be such that it can be corrected, but cannot be corrected within such period, it will 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.

(b) Upon the occurrence and continuation of an Event of Default specified in clause (a)(i) or (a)(ii) above, 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, will, 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 will thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee will not be required to take any action upon the occurrence and continuation of an Event of Default under clause (a)(i), (a)(ii), (a)(iii) or (a)(iv) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration of the Bonds the Trustee will 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 thereunder.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds will have been so declared due and payable, and before any judgment or decree for the payment of the moneys due will have been obtained or entered as provided in the Indenture, there will 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) 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) will 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 will 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 will extend to or will affect any subsequent default, or will 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 will happen and be continuing, the Trustee in its sole discretion may, and upon the written request of 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) will, 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 in the Indenture, or in aid of the execution of any power granted in the Indenture, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will 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 in the Bond Fund on or after the occurrence of an Event of Default will 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) 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 will 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 specified in the Indenture.

Third: In case the principal of any of the Outstanding Bonds will 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 specified in the Indenture.

Fourth: To the payment of fees and costs due and owing to the Issuer.

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, will 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 Owners of the Bonds, it will 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 will 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 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 by the Indenture 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 will 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.

Limitation on Owners' Right to Sue. No Owner will 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 will 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 will 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 will have tendered to the Trustee indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees) and liabilities to be incurred in compliance with such request; and (d) the Trustee will have refused or omitted to comply with such request for a period of thirty (30) days after such written request will have been received by, and said tender of indemnity will 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 will 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 provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture 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, will not be impaired or affected without the consent of such Owner, notwithstanding any other provision of the Indenture.

The Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee will, prior to an Event of Default under the Indenture, and after the curing, or waiver, of all Events of Default thereunder which may have occurred, and the Trustee at all times will, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee will, 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 will 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 or waiver of all Events of Default which may have occurred, the duties and obligations of the Trustee will at all times be determined solely by the express provisions of the Indenture; the Trustee will 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 will 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 will exist,

(i) the Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee unless it will be proved that the Trustee, was negligent in ascertaining the pertinent facts;

(ii) the Trustee will 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 will 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 will be under a duty to examine the same to determine whether or not it conforms to the requirements of the Indenture.

(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 will be entitled to advice of counsel concerning all matters of trust and concerning its duties under the Indenture and the Trustee will 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.

The Trustee will not be liable in connection with the performance of its duties under the Indenture except for its own negligence or willful misconduct.

Compensation and Indemnification of Trustee. The Trustee will be entitled to reasonable compensation for all services rendered by the Trustee in the execution of the trusts created and in the exercise and performance of any of the powers and duties of the Trustee under the Indenture, which compensation will not be limited by any provision of law in regard to the compensation of a trustee of an express trust, and the Loan Agreement will require the Borrower to pay or reimburse the Trustee, upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee, in accordance with any of the provisions of the Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence, misconduct or bad faith. Any amounts payable to the Trustee under the Indenture, if not paid when due, will be subject to interest at the base rate of the Trustee. If any property, other than cash, will at any time be held by the Trustee, subject to the Indenture, or any Supplemental Indenture, as security for the Bonds, the Trustee, if and to the extent authorized by a receivership, bankruptcy or other court of competent jurisdiction or by the instrument subjecting such property to the provisions of the Indenture as such security for the Bonds, will be entitled (but not required) to make advances for the purpose of preserving such property or of discharging tax liens or other prior liens or encumbrances thereon. The Loan Agreement will also require the Borrower to provide certain indemnification to the Trustee.

Notwithstanding the foregoing, prior to seeking indemnity the Trustee will make timely payments of principal of and interest on the Bonds with moneys on deposit in the Bond Fund as provided in the Indenture, and will accelerate the payment of principal on the Bonds without seeking indemnification from the Issuer, the Borrower, or any Owner. Upon the occurrence and continuance of an Event of Default under the Indenture, and subject to certain provisions of the Indenture, the Trustee will have a lien prior to the Bonds as to all property and funds held by it for any amount owing to it or any predecessor Trustee or the Loan Agreement and the rights of the Trustee to compensation for its services and to payment or reimbursement for its costs, expenses, or advances will have priority over the Bonds in respect of all property or funds held or collected by the Trustee as such and other funds held in trust by the Trustee for the benefit of the Owners of particular Bonds; provided, however, that neither the Trustee nor any predecessor Trustee will have any lien or claim against any moneys on deposit in the Rebate Fund for payment of any such compensation, reimbursement or other amounts.

Qualifications of Trustee. The Issuer and the initial Trustee under the Indenture acknowledge that there will at all times be a Trustee under the Indenture which will 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 and surplus of at least seventy-five million dollars (\$75,000,000), 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 will 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 will cease to be eligible, the Trustee will 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 and by giving Notice by Mail to the Owners of such resignation; provided that, such resignation will not be effective until a successor Trustee has been appointed under the Indenture. The Trustee will 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, will promptly appoint a successor Trustee by an instrument in writing. If no successor Trustee will have been so appointed and have accepted appointment within twenty (20) 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 (6) 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 will occur:

(i) the Trustee will cease to be eligible in accordance with the provisions of the Indenture and will 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 will become incapable of acting, or will be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property will be appointed, or any public officer will 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 will be paid in accordance with 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 upon thirty (30) days' prior written notice, remove the Trustee, and, with the advice of the Borrower and at the expense 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 will become effective only upon acceptance of appointment by the successor Trustee as provided in the Indenture.

Acceptance of Trust by Successor Trustee. Any successor Trustee appointed will execute, acknowledge and deliver to the Issuer, the Borrower and to its predecessor Trustee an instrument accepting such appointment under the Indenture, and thereupon the resignation or removal of the predecessor Trustee will become effective and such successor Trustee, without any further act, deed or conveyance, will become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts under the Indenture, with like effect as if originally named as Trustee therein; but, nevertheless, on the Written Request of the Issuer or the request of the successor Trustee, the Trustee ceasing to act will execute and deliver an instrument transferring to such successor Trustee, upon the trusts expressed in the Indenture, all the rights, powers and trusts of the Trustee so ceasing to act. Upon request of any such successor Trustee, the Issuer will, at the expense of the Borrower, execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and duties. Any Trustee ceasing to act will, nevertheless, retain a lien upon all property or funds held or collected by such Trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity afforded to it by the Indenture.

No successor Trustee will accept appointment unless at the time of such acceptance such successor Trustee will be eligible under the provisions of the Indenture.

Upon acceptance of appointment by a successor Trustee, the successor Trustee will give the Owners, and each Rating Agency notice of the succession of such Trustee to the trusts under the Indenture.

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 will be a party, or any corporation or banking association succeeding to all or substantially all of the corporate trust business of the Trustee, will 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 to the Indenture, anything therein to the contrary notwithstanding, provided that such successor Trustee will be eligible under the provisions of the Indenture.

Accounting Records and Reports; Financing Statements. The Trustee will keep proper books of record and account in accordance with accounting standards in which complete and correct entries will 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 will be open to inspection by the Issuer, the Borrower, and by any Owner at any reasonable time during regular business hours on reasonable prior written notice. The Trustee shall maintain such records for six years following the discharge of all Outstanding Bonds.

The Trustee will 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 will have no responsibility or liability with respect to the Borrower's failure to provide such statements, nor any responsibility to review any such statements as may be furnished to it, and the Trustee will not be required to compel the Borrower to provide any such statements.

The Trustee will not be responsible for the preparation or filing of any UCC financing statements or continuation statements under the Indenture.

Modification of Indenture, Documents

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, 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 will 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 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 or the status of the Bonds under the Code;

(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 change Exhibit A to the Loan Agreement in accordance with the provisions thereof and of the Tax Agreement;

(i) to comply with requirements of any Rating Agency in order to obtain or maintain a rating on any Bonds; or

(j) in connection with any other change which will not adversely affect the security for the Bonds or the Tax-Exempt status of interest on the Bonds under the Code or otherwise materially adversely affect the interests of the Owners of the Bonds, 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 Issuer or the Trustee will 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 will 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 will 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 under the Code; (v) is in accordance with the Bond Documents; and (vi) will not materially adversely affect the interests of the Owners of the Bonds.

Modification with Consent of Owners. With the consent of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, and at the expense of the Borrower, (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 will (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 will be construed as making necessary the approval of any Owner of any Supplemental Indenture or Amendment permitted by the provisions of the Indenture 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 under the Code; (v) is in accordance with the 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 will join with the Issuer in the execution of such Supplemental Indenture or will consent to such Amendment; provided, however, that (i) the Trustee will 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 will not be obligated to, enter into such Supplemental Indenture; (ii) the Trustee will not enter into such Supplemental Indenture or consent to any Amendment of any Bond Document without first obtaining the Borrower's 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 will also be delivered to the Issuer.

Defeasance

Discharge of Indenture. If all Bonds will 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 Indenture; 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 will be paid and discharged, then thereupon the Indenture will be satisfied and discharged and will cease, terminate and become null and void (except with respect to the preceding paragraph "Compensation and Indemnification of Trustee," which will survive), and thereupon the Trustee will, 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 will cause an accounting for such period or periods as may be requested by the Issuer to be prepared and filed with the Issuer and will execute and deliver to the Issuer all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will 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 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, and the Rebate

Requirement. The Trustee will mail written notice of such payment and discharge to the Issuer, the Borrower and each Rating Agency.

Discharge of Liability on Particular Bonds. (a) Any Bond or a portion thereof will 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) will 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; and (ii) if such Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided or provision satisfactory to the Trustee will 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 subsection (a) above, the principal amount of the Bond as to which such payment is not provided for will be in an Authorized Denomination and, unless that portion of the Bond as to which payment is provided for in accordance with subsection (a) above 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 to pay or redeem a Bond or a portion thereof and the satisfaction of the other conditions specified in subsection (a) above, such Bond, or the applicable portion thereof, will be deemed to be paid under the Indenture, will 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, will cease, terminate and be completely discharged, except that the Issuer and the Borrower will 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 will 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 will 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 will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount of money to be deposited or held will 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 will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice; provided, in each case, that the Trustee will 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 will 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.

Continuing Disclosure

Pursuant to the Loan Agreement, the Borrower will have no continuing disclosure requirements for the Bonds as promulgated under S.E.C. Rule 15c2-12. The Issuer will have no liability or obligation to the Owners of the Bonds or any other Person with respect to such disclosure matters. The Regents will comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time hereafter be amended or supplemented, in accordance with the terms of a continuing disclosure undertaking executed and delivered by The Regents. Notwithstanding any other provision of the Indenture, failure of The Regents to comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time hereafter be amended or supplemented, will not be considered an Event of Default under the Indenture or under the Loan Agreement; 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 satisfactory to the Trustee, will) or any Owner or beneficial owner (within the meaning of Rule 15c2-12) of any Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause The Regents to comply with its obligations under the Continuing Disclosure Agreement.

Other Rights of The Regents

The Issuer and the Trustee agree for the benefit of The Regents that:

(a) Amendments of the Bonds or Amendments or Supplements to the Indenture. Any amendments of the Bonds or amendments or supplements to the Indenture will also require the prior written consent of The Regents.

(b) Change in Trustee. Any appointment of a successor Trustee under the Indenture will require the prior written consent of The Regents.

(c) Notices to be Sent to The Regents. The Regents will receive notice of the resignation or removal of the Trustee and the appointment of a successor thereto. The Regents will receive copies of all notices required to be delivered to Owners of the Bonds. Any notice that is required to be given to an Owner of a Bond or to the Trustee pursuant to the Indenture will also be provided to The Regents.

(d) The Regents as a Third Party Beneficiary. The Regents will be expressly identified as a third party beneficiary under the Indenture.

THE LOAN AGREEMENT

Definitions

Definition of Terms. Unless the context otherwise requires, the terms used in the Loan Agreement will have the meanings specified in the Indenture.

Issuance of the Bonds; Application of Proceeds; Construction of Borrower Project

Agreement to Issue Bonds; Application of Bond Proceeds. To provide funds to finance Costs of the Project, including capitalized interest on a portion of the Bonds during construction of the Project and Costs of Issuance, the Issuer agrees that it will issue the Bonds pursuant to the terms and conditions contained in the Indenture.

Investment of Moneys in Funds. Subject to the provisions of the Loan Agreement, any moneys in any fund held by the Trustee will, to the extent permitted under the Indenture, be invested or reinvested by the Trustee as provided in the Indenture. Except as otherwise provided in the Indenture, such investments will be deemed at all times to be a part of the fund from which such investments were made, and the interest accruing thereon and any

profit or loss realized therefrom will, except as otherwise provided in the Indenture, be credited or charged to such fund.

Agreement to Construct the Project. Subject to the provisions of the Loan Agreement, the Borrower agrees that it will acquire, construct, install, furnish, equip, reconstruct, repair, alter, improve and extend or cause to be acquired, constructed, installed, furnished, equipped, reconstructed, repaired, altered, improved and extended all facilities and real and personal property deemed necessary for the operation of the Project as described in the Loan Agreement, including any and all supplements, amendments and additions or deletions to such description. The Borrower further agrees (i) to proceed with due diligence to complete the Project; (ii) to ensure that the Project is consistent with any existing local or regional comprehensive plans; and (iii) to ensure that the Project is acquired, constructed, installed, furnished, equipped, reconstructed, repaired, altered, improved and extended in accordance with all applicable laws and permits.

In the event that the Borrower desires to alter or change the description of the Project, and such alteration or change substantially alters the purpose and description of the Project from that contained in the Loan Agreement, following review and approval by the Issuer, the Issuer will, at the expense of the Borrower, enter into, and will instruct the Trustee to consent to, such amendment or supplement as will be required to reflect such alteration or change to the Project upon receipt of:

(i) a certificate of an Authorized Borrower Representative, approved by the Issuer, describing in detail the proposed changes and stating that the Issuer has confirmed that the proposed changes will not have the effect of disqualifying the Project as facilities that may be financed pursuant to the Act;

(ii) a copy of the proposed form of such amendment or supplement; and

(iii) an Opinion of Bond Counsel that such proposed changes will not adversely affect the Tax-Exempt status of interest on the Bonds under the Code, and that such proposed changes are in accordance with the associated transaction documents.

Disbursements of Bond Proceeds.

(a) Subject to the provisions of the Loan Agreement, the Borrower will authorize and direct the Trustee to disburse the moneys in the Construction Fund, including any subaccounts therein, to or on behalf of the Borrower only to pay the Costs of the Project (and not for Costs of Issuance).

(b) The Borrower will authorize and direct the Trustee to disburse the moneys in the Costs of Issuance Fund to or on behalf of the Borrower only for Costs of Issuance.

Establishment of Completion Date; Limited Obligation of Borrower to Complete. As and to the extent required by the Development Agreement, upon completion of the acquisition, construction, installation, furnishing, equipping, reconstruction, repair, alteration, improvement and extension of the Project, the Borrower will evidence the Completion Date by providing to the Trustee and the Issuer a certificate stating: (i) the Final Completion Date and that all Costs of the Project have been paid, and (ii) the total Costs of the Project funded from the proceeds of the Bonds. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Borrower against third parties for any claims or for the payment of any amount not then due and payable which exists at the date of such certificate or which may subsequently exist.

At the time such certificate is delivered to the Trustee, any moneys remaining in the Construction Fund, including any earnings resulting from the investment of such moneys, will be used as provided in the Indenture.

The Issuer makes no express or implied warranty that the moneys deposited in the Construction Fund and available for payment of the Costs of the Project under the provisions of the Loan Agreement, will be sufficient to pay all the amounts which may be incurred for all costs in connection with the Project. The Borrower agrees that if, after exhaustion of the moneys in the Construction Fund, the Borrower, The Regents or any other Person should in its discretion pay, or deposit moneys in the Construction Fund for the payment of, any portion of the Costs of the

Project pursuant to the provisions of the Loan Agreement, it will not be entitled to any reimbursement therefor from the Issuer, from the Trustee or from the Owners of any of the Bonds, nor will it be entitled to any diminution of the amounts payable under the Loan Agreement.

Operating Fund. The Borrower will establish and maintain the Operating Fund (and the Proceeds Subaccount and the Non-Proceeds Subaccount therein) with the Trustee pursuant to the Indenture. The Trustee will deposit a portion of the proceeds of the Bonds into the Proceeds Subaccount within the Operating Fund pursuant to the Indenture, and the Trustee will also deposit certain other amounts into the Non-Proceeds Subaccount within the Operating Fund pursuant to the Indenture. Funds held in the Operating Fund (including the subaccounts therein) will be withdrawn and applied by the Trustee in accordance with the Indenture.

Loan to Borrower; Repayment Provisions

Loan Payments and Other Amounts Payable. (a) With respect to the Bonds, the Borrower covenants and agrees, subject to the provisions of the Loan Agreement, to pay or cause to be paid 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) and interest on the Bonds, until the principal of and interest on the Bonds will have been fully paid or provision for the payment thereof will have been made in accordance with the Indenture relating to defeasance of the Bonds, 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 pursuant to the Loan Agreement will at all times be sufficient to pay the total amount of interest 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, including Base Rent paid to the Trustee by The Regents pursuant to the Base Rent Assignment Agreement, will be credited against the Loan Payment due on such date, to the extent available for such purpose; and provided further that, 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 will be relieved of any obligation to make any further payments with respect to the Bonds under the provisions of the Loan Agreement. Notwithstanding the foregoing and subject to the provisions of the Loan Agreement, if on any date the amount held by the Trustee in the Bond Fund (including without limitation the Capitalized Interest Account therein) 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 will forthwith pay such deficiency as a Loan Payment under the Loan Agreement. Any payments to be made by the Borrower will be satisfied if paid by The Regents pursuant to the Space Lease and deposited with the Trustee pursuant to the Base Rent Assignment 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 will, subject to the provisions of the Loan Agreement, make or cause to be made 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 five 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.

(ii) *Principal Deposits.* The Borrower agrees that it will deposit or cause to be deposited with the Trustee five 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.

(c) The Borrower agrees, subject to the provisions of the Loan Agreement, to pay or cause to be paid to the party entitled thereto, to the extent not previously paid from Bond proceeds, each of the following:

(i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Indenture, as and when the same become due;

(ii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including reasonable attorneys' fees) incurred by it under the Indenture, as and when the same become due;

(iii) the cost of printing any Bonds required to be furnished by the Issuer;

(iv) All taxes and assessments of any type or character charged to the Issuer or to the Trustee affecting the amount available to the Issuer or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated by the Loan Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding any taxes based upon the capital and/or income of the Trustee or any other Person other than the Borrower; provided, however, that, to the extent provided by law, the Borrower will have the right to protest any such taxes or assessments and to require the Issuer or the Trustee, as the case may be, at the Borrower's expense, to protest and contest any such taxes or assessments assessed or levied upon them and that the Borrower will have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would materially adversely affect the rights or interests of the Issuer or the Trustee or the payment when due of the principal of and interest on the Bonds;

(v) the Issuer's initial fees on the issuance of the Bonds and reasonable fees and expenses of the Issuer or any agent or attorney selected by the Issuer to act on its behalf including, without limitation, fees and expenses of the Issuer's in-house and outside counsel and the fees and expenses of the California Department of Justice when acting on behalf of the Issuer, in connection with the loan to the Borrower under the Loan Agreement, the Bonds, the Indenture, the Tax Agreement, the Bond Purchase Agreement or any other documents contemplated thereby, including without limitation any and all reasonable out of pocket expenses incurred in connection with any inquiry, litigation, investigation, audit or other proceeding that may at any time be instituted or any other questions or matter involving such loan or the Loan Agreement, the Bonds, the Indenture, the Tax Agreement, the Bond Purchase Agreement or any other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the Borrower, the Project and its operations with respect to the use and application of the loan, in each case payable no later than thirty (30) days after request for such payment;

(vi) the Issuer Annual Fee, payable on September 1 of each year or portion thereof in which Bonds are Outstanding, commencing September 1, 2018; provided, however, if all Bonds Outstanding will be prepaid as set forth in Article VIII hereof (1) after September 1 and before March 1 of any given year, then the Issuer Annual Fee for the year in which such prepayment is made will be reduced by half and will be payable thirty (30) calendar days following such prepayment; or (2) after March 1 and on or before September 1 of any given year, then the Issuer Annual Fee for the year in which such prepayment is made will be payable in its entirety on the earlier of (y) thirty (30) calendar days following such prepayment or (z) September 1 of the year in which such prepayment is made;

(vii) within twenty (20) days after receipt of request for payment thereof, all expenses required to be paid by the Borrower under the terms of any purchase contract, including exhibits thereto, executed by it in connection with the sale of the Bonds;

(viii) all reasonable out of pocket expenses of the Issuer related to the loan and the application of the proceeds of the Bonds which are not otherwise required to be paid by the Borrower under the terms of the Loan Agreement;

(ix) the reasonable fees and out of pocket expenses of such accountants, consultants, attorneys and other experts, including, without limitation, fees and expenses of the Issuer's in-house and outside counsel and the fees and expenses of the California Department of Justice when acting on behalf of the Issuer, as may be engaged by the Issuer or the Trustee to prepare audits, financial statements or opinions or provide such other services as are reasonably required under the Loan Agreement, the Indenture or the Tax Agreement; and

(x) such amounts as may be necessary to satisfy the rebate requirements in accordance with the Tax Agreement and to pay the cost of calculation of such rebate requirements when required by the Code if the Borrower does not do so directly. To the extent the Borrower does not satisfy any of the exceptions to rebate, any rebate calculations must be computed by a third party rebate analyst (at the sole expense of the Borrower) and may not be computed solely by the Borrower; and

(xi) such amounts as may become due under the Loan Agreement.

The Borrower agrees that the payments of fees and expenses as provided in the Loan Agreement will survive the discharge of the Indenture, the Loan Agreement and the retirement of the Bonds or the resignation or removal of the Trustee. In the event the Borrower should fail to make any of such payments required by the Loan Agreement, such payments will continue as obligations of the Borrower until such amounts will have been fully paid.

Unconditional, Limited Obligation. (a) The obligations of the Borrower to make the loan payments and other payments as required by the Loan Agreement and to perform and observe the other agreements on its part contained in the Loan Agreement will 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 will 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 thereunder, free of any deductions and without abatement, diminution or setoff. Until such time as the principal of and interest on the Bonds will have been fully paid, or provision for the payment thereof will have been made as required by the Indenture relating to defeasance of the Bonds, 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 (i) will not suspend or discontinue any payments provided for in the Loan Agreement; (ii) will perform and observe all of its other covenants contained in the Loan Agreement; and (iii) except as provided in the Loan Agreement relating to prepayment, 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 Project, termination of any lease relating to the 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.

(b) Notwithstanding any other provision of the Loan Agreement, the Borrower will not be required to pay any moneys derived from any source of income other than the Space Lease, the Developer Ground Lease, the CFIA Ground Lease and the other funds provided in the Loan Agreement for the payment of the Loan Payments and other amounts payable under the Loan Agreement or for the performance of any other agreements or covenants required to be performed by the Borrower under the Loan Agreement. Accordingly, the obligations of the Borrower under the Loan Agreement are limited obligations of the Borrower payable solely from income derived from the Space Lease, the Developer Ground Lease and the CFIA Ground Lease and the other funds provided in the Loan Agreement; do not constitute general obligations of the Borrower; and liability for which is effectively limited to the income and funds described in the Loan Agreement with no recourse to, or lien upon, directly or indirectly, any other property of the Borrower.

Assignment of Issuer's Rights; Base Rent Assignment Agreement. As security for the payment of the Bonds, the Issuer will assign to the Trustee the Issuer's rights, other than the Reserved Rights, but not its obligations, under the Loan Agreement, including the right to receive Loan Payments thereunder and the Issuer directs the Borrower to make the Loan Payments directly to the Trustee. The Borrower assents to such assignment and agrees to make the Loan Payments directly to the Trustee without defense or setoff by reason of any dispute between the Borrower and the Issuer or the Trustee. Moreover, as additional security for the payment of the Bonds, upon the execution and delivery of the Loan Agreement the Developer has assigned to the Trustee the rights to receive Base Rent payments from The Regents pursuant to the Space Lease and pursuant to the Base Rent Assignment Agreement the Developer has directed The Regents to make the Base Rent payments directly to the Trustee, and The Regents has assented to such assignment and agreed to make the Base Rent payments directly to the Trustee without defense or setoff by reason of any dispute between the Developer, the Borrower, the Issuer or the Trustee.

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, that the Borrower may, without violating the agreements contained in the Loan Agreement, 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; provided, that in the event the Borrower is not the surviving, resulting or transferee Person, as the case may be, that 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 of the Loan Agreement; (ii) is not, after such transaction, otherwise in default under any provisions in the Loan Agreement; and (iii) is an organization described in Section 501(c)(3) of the Code. Notwithstanding the foregoing, as a condition precedent to any consolidation, merger, sale or other transfer, the Trustee and the Issuer will receive (A) an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not in and of itself adversely affect the Tax-Exempt status of interest on the Bonds under the Code, 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 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 relating to defeasance of the Bonds.

(b) If a merger, consolidation, sale or other transfer is effected, these provisions will continue in full force and effect and no further merger, consolidation, sale or transfer will 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 will apply to the combined indebtedness of the Borrower and such other Person, references to the financial condition or results of operation of the Borrower will apply to the combined financial condition and results of operation of the Borrower and such other Person, and the Borrower and such other Person will be considered to be the Borrower for all purposes of the Loan Agreement.

Taxes, Utility and Other Charges. The Borrower agrees that, solely 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 Project or any part thereof, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the 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, will 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, and 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 Project or any part thereof will be subject to loss or forfeiture.

Qualification in California. 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 will 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 a 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 covenants and agrees that it will not directly or indirectly use or permit the use of any proceeds of the Bonds or other funds, or 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. 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 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 will so instruct the Trustee in writing and the Trustee will comply with such written instructions. The covenants and agreements of the Issuer in this paragraph will 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 will 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 will survive payment in full of the Bonds or provision for the payment of the Bonds in accordance with the Indenture. The Borrower specifically covenants to engage or cause to be engaged with respect to the Bonds a rebate consultant (“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 will payment of the Rebate Requirement be the obligation of the Issuer. The initial Rebate Consultant will be BLX Group LLC.

(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 will 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)(3) of the Code; and provided, further, that none of the covenants and agreements contained in the Indenture will 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. The Borrower agrees to perform all duties imposed on it by the Indenture, by the Loan Agreement and by the Tax Agreement. Insofar as the Indenture and the Tax Agreement impose duties and responsibilities on the Borrower, they are specifically incorporated in the Loan Agreement by reference.

(f) Notwithstanding any provision of the Loan Agreement and the Indenture relating to tax covenants or any provision of the Tax Agreement, if the Borrower will provide to the Issuer and the Trustee an Opinion of Bond Counsel that any specified action required under the Loan Agreement and the Indenture or any provision of the Tax Agreement 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 of the Loan Agreement and the Indenture and the provisions of the Tax Agreement; and the covenants contained therein will be deemed to be modified to that extent.

If at any time the Borrower is of the opinion that it is necessary to restrict or limit the yield on or change in any way the investment of any moneys held by the Trustee or under the Indenture, the Borrower will so instruct the Trustee or the appropriate officers of The Regents in writing, and the Trustee or the appropriate officers of The Regents, as the case may be, will take such actions as may be necessary in accordance with such instructions.

In furtherance of the covenants of the Borrower set forth above, the Borrower will comply with the Tax Agreement.

(g) Notwithstanding the foregoing, and with respect to any obligation set forth in this section, the Issuer is relying on the Borrower to act or refuse to act in the appropriate manner except to the extent a particular affirmative action by the Issuer is required or prohibited.

Continuing Disclosure. Neither the Issuer nor the Borrower is an obligated person within the meaning of the continuing disclosure requirements for the Bonds as promulgated under Rule 15c2-12, and therefore neither the Issuer nor the Borrower is executing or delivering a continuing disclosure agreement in connection with the issuance of the Bonds. To the extent the Borrower becomes an obligated person within the meaning of the continuing disclosure requirements for the Bonds, the Borrower agrees to comply with the requirements of Rule 15c2-12 applicable to the Bonds. The Regents is an obligated person and has agreed, pursuant to the CFIA Ground Lease, to comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time hereafter be amended or supplemented, in accordance with the terms of the 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 Project, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as required under the Space Lease.

(b) Compliance by The Regents with the insurance requirements set forth in the Space Lease will satisfy the requirements of the Loan Agreement relating to insurance.

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 the limitations set forth in 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 will 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 will 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 by the Loan Agreement.

Maintenance of Space Lease. The Borrower agrees that throughout the term of the Loan Agreement, it, or any successor or assignee as permitted therein, will not take any action to cause the Space Lease not to be maintained in full force and effect.

Limitation on Encumbrances. The Borrower covenants and agrees that it will not create, assume or suffer to exist any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (a “security interest”) upon its interest in the Project, any moneys derived from the Space Lease, the Developer Ground Lease, the CFIA Ground Lease and the other funds provided in the Loan Agreement (including, but not limited to, cash and investments), whether now owned or hereafter acquired (except for Permitted Encumbrances); provided, however, that notwithstanding the foregoing provision, the Borrower may create, assume or suffer to exist Permitted Encumbrances.

Limitation on Additional Debt. The Borrower covenants that it will not incur any additional Debt secured by the Revenues, or any part thereof, while the Bonds remain Outstanding.

Damage, Destruction and Condemnation; Continuation of Payments

Obligation to Continue Payments. So long as any Bonds are Outstanding, if (i) the 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 Project or any portion thereof will 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 will nevertheless be obligated to continue to pay the amounts specified in the Loan Agreement, to the extent not prepaid in accordance with the Loan Agreement. Pursuant to the Space Lease, The Regents have unconditionally agreed to pay base rental payments thereunder, and such payments by The Regents will satisfy the Borrower’s obligation to continue payments under the Loan Agreement.

Events of Default and Remedies

Events of Default. Any one of the following which occurs will 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 when due or to make the deposits required to be made under the Loan Agreement within three days of the day when such payment was due; or
- (b) 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) above, which continues for a period of thirty (30) days after written notice from the Trustee or the Issuer, which notice will 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; or
- (c) 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
- (d) an Act of Bankruptcy occurs with respect to the Borrower; or
- (e) the occurrence of an Event of Default under the Indenture.

Remedies on Default. (a) Whenever any Event of Default under the Loan Agreement will have occurred and will continue, the Issuer or 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 thereunder.

(b) If, at any time after all of the Outstanding Bonds will have been declared due and payable pursuant to the Indenture relating to default but such declaration has been rescinded, no amount will be payable by the Borrower pursuant to the Loan Agreement 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 will have proceeded to enforce its rights under the Loan Agreement and such proceedings will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Issuer, then, and in every such case, the Borrower, the Trustee and the Issuer will 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 will 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 will not be disturbed by reason of this provision).

Prepayment

Optional Prepayment of Loan Payments. So long as no Event of Default will have occurred and be continuing under the Loan Agreement, the Borrower will have the option to prepay all or any portion of the Loan Payments by paying the applicable amount set forth in the Loan Agreement relating to prepayment. By virtue of the assignment under the Loan Agreement to the Trustee of certain rights of the Issuer, the Borrower will pay any prepayment of Loan Payments directly to the Trustee. Such prepayments of Loan Payments will be applied to provide for the payment of Outstanding Bonds (or portions thereof in Authorized Denominations) as specified in the notice of prepayment in accordance with the Indenture relating to defeasance of the Bonds and the related expenses and other costs specified in the Loan Agreement relating to prepayment.

Notwithstanding any partial prepayment of Loan Payments, the Loan Agreement will 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 will 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 with the Indenture relating to defeasance of the Bonds.

(b) In the case of the prepayment of a portion of the Loan Payments remaining due under the Loan Agreement, the amount payable will be a sum sufficient: (i) to provide for the payment of the Outstanding Bonds (or portions thereof) in Authorized Denominations of the maturities specified in the notice of prepayment in accordance with the Indenture relating to defeasance of the Bonds, 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.

Pursuant to the CFIA Ground Lease, the Borrower has agreed to comply with directions from The Regents concerning prepayments under the Loan Agreement and to apply any amounts provided for such purpose by The Regents in accordance with the Loan Agreement relating to prepayment.

Nonliability of Issuer; Expenses; Indemnification

Nonliability of Issuer. The Bonds are limited obligations of the Issuer and the Issuer will not be obligated to pay the principal of, or interest on the Bonds, except from Revenues and the amounts in the funds held by the Trustee under the Indenture which are pledged to such payment. Neither the faith and credit nor the taxing power of the State or of any political subdivision thereof will be pledged to the payment of the principal of, premium, if any, or interest on, the Bonds. Neither the Issuer nor its members, officers, employees or agents nor the State nor any of its political subdivisions will be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the debt service due on the Bonds, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Bonds are not a pledge of the faith and credit of the Issuer, the State or any of its political subdivisions nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Issuer has no taxing power. The Issuer will not be liable for payment of the principal of, premium, if any, or interest on, the Bonds or any other costs, expenses, losses, damages, claims or actions of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Loan Agreement or any other documents, except only to the extent amounts are received for the payment thereof from the Borrower under the Loan Agreement. None of the Issuer or its members, directors, officers, employees or agents will be individually or personally liable for the payment of the 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 issuance thereof or the execution and delivery of the Loan Agreement; but nothing in the Loan Agreement contained will relieve any such member, officer, employee or agent from the performance of any official duty provided by law or by the Loan Agreement.

The Borrower acknowledges that the Issuer's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower pursuant to the Loan Agreement, together with other Revenues and amounts in the funds held by the Trustee under the Indenture which are pledged to such payment, and agrees that if the payments made under the Loan Agreement will ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same will become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee and subject to the preceding paragraph "Unconditional, Limited Obligation," the Borrower will pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the Issuer, or any third party, subject to any right of reimbursement from the Trustee, the Issuer or any such third party, as the case may be, therefor but solely, in the case of the Issuer, from the Additional Payments (other than funds paid to the Issuer pursuant to the Reserved Rights), other than with respect to any deficiency caused by the willful misconduct of the Issuer.

Indemnification. The Borrower releases the Issuer and the Trustee from, and covenants and agrees that neither the Issuer nor the Trustee, will be liable for, and covenants and agrees, to the fullest extent permitted by law, to indemnify, hold harmless and defend the Issuer, the Trustee and each of their past, present and future directors, members, officers, employees, attorneys, consultants and agents (collectively, the "Indemnified Parties") from and against, any and all losses, claims, damages, liabilities, actions, costs and expenses, of any conceivable kind, character and nature (including, without limitation, reasonable attorneys' fees, including, without limitation, fees and expenses of the Issuer's in-house and outside counsel and the fees and expenses of the California Department of Justice when acting on behalf of the Issuer, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) to which the Indemnified Parties, or any of them, may become subject under any statutory law (including federal or state securities laws) or at common law or otherwise, whatsoever arising out of, resulting from or in any way connected with: (1) any act or omission of the Borrower or any of its agents, contractors, servants, employees, tenants or licensees in connection with the Project, the conditions, occupancy, use, possession, conduct, operation or management of the Project by the Borrower, or work done in or about the Project by or for the Borrower, or from the planning, design, installation or construction (or reconstruction) of the Project or any part thereof; (2) the issuance of the Bonds, the execution or amendment of the Indenture, the Loan Agreement or the Tax Agreement or the making of any certifications, covenants or representations in connection with the Bonds, the Indenture, the Loan Agreement and the Tax Agreement and the carrying out of any of the transactions contemplated thereby; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture, the Loan Agreement and any other document in connection with therewith; (4) the Issuer's acceptance of its responsibilities under the Loan Agreement and under

the Tax Agreement and the Indenture; (5) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular or any of the other documents relating to the Bonds utilized by the Issuer or any underwriter in connection with the offer or sale of the Bonds, other than information in any such official statement or offering circular supplied by the Issuer; (6) any violation of any Environmental Regulation with respect to, or the release of any Hazardous Substances from, the Project, the cleanup of any Hazardous Substances from the Project, or the authorization of payment of costs thereof, (7) any amount owed or alleged to be owed either (i) pursuant to the Tax Agreement or pursuant to any regulatory audit or inquiry regarding whether interest on the Bonds is not Tax-Exempt or (ii) because of a determination or allegation that the Bonds are not Tax-Exempt; (8) any lien or charge upon payments by the Borrower to the Issuer under the Loan Agreement or any taxes (including, without limitation, all ad valorem taxes and sales taxes), assessments, impositions and other charges imposed on the Issuer in respect of any portion of the Project; or (9) the defeasance or prepayment, in whole or in part, of the Bonds; provided that the foregoing release and indemnity in the paragraph will not be required for damages that result from, in the case of the Issuer, the gross negligence or willful misconduct on the part of the Indemnified Party or, in the case of the Trustee, the negligence or willful misconduct on the part of the Indemnified Party.

In the event that the Borrower receives written notice of any action or proceeding brought against any Indemnified Party with respect to which indemnity may be sought under this section, the Borrower, upon written notice to the Indemnified Party, will assume the investigation and defense thereof, including the employment of counsel selected by the Borrower and reasonably approved by the Indemnified Party, provided that the Issuer is required to retain the California Attorney General's Office to investigate and defend the Issuer in any action or proceeding brought against the Issuer, and the Borrower will assume the payment of all expenses related thereto, whether incurred or paid prior to or following receipt by the Borrower of such written notice, with full power to litigate, compromise or settle the same in its sole discretion; provided that the Indemnified Party will have the right to review and approve or disapprove any such compromise or settlement. Each Indemnified Party will have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defense thereof, and the Borrower will pay the reasonable fees and expenses of such separate counsel; provided, however, that such Indemnified Party may only employ separate counsel at the expense of the Borrower if in the case of the Issuer, such party is required to do so under the law, or in the reasonable judgment of such Indemnified Party a conflict of interest exists by reason of common representation or if all parties commonly represented do not reasonably agree as to the action (or inaction) of counsel.

The indemnity required by this section will be only to the extent that any loss sustained by the Trustee exceeds the net proceeds the Trustee receives from any insurance carried with respect to the loss sustained. The Borrower further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Issuer, the Trustee, and their respective directors, officers, members, employees, attorneys, consultants and agents for any and all costs, reasonable attorneys' fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of, in the case of the Issuer, the gross negligence or willful misconduct of the party claiming such payment or reimbursement or, in the case of the Trustee, the negligence or willful misconduct of the party claiming such payment or reimbursement, or such cost, attorneys' fees or expenses are paid by any carried insurance. The provisions of this section will survive the discharge of the Indenture, the Loan Agreement or the Tax Agreement, the retirement of the Bonds and with respect to the Trustee, the resignation and removal of the Trustee.

BASE RENT ASSIGNMENT AGREEMENT

Definitions. Capitalized terms used but not defined in the Assignment Agreement will have the meanings set forth in the Space Lease or, if not defined therein, in the Indenture.

Assignment. The Landlord, for good and valuable consideration, the receipt of which is acknowledged, does unconditionally sell, assign and transfer to the Trustee, irrevocably and absolutely, without recourse for the benefit of the owners of the Bonds (i) all its rights to receive the Base Rent (as defined in the Lease) and interest, if any, thereon under and pursuant to the Lease, (ii) the right to take all actions under the Lease with respect to the payment of Base Rent, and (iii) any and all other rights and remedies of the Landlord in the Lease as Landlord thereunder with respect to Base Rent and Bond Administrative Charges; provided, that so long as no default in

payment of Base Rent under the Lease will have occurred or be continuing, the Landlord will have and may exercise all rights of the Landlord under the Lease other than the right to receive the Base Rent.

Acceptance. The Trustee accepts the foregoing assignment, subject to the terms and provisions of the Indenture, for the benefit of the owners of the Bonds, and all such Base Rent will be applied and all such rights so assigned will be exercised by the Trustee as provided in the Lease and in the Indenture.

Representations. The parties to the Base Rent Assignment Agreement acknowledge and agree that as additional security for the payment of the Bonds, upon the execution and delivery of the Loan Agreement, the Landlord has executed the Assignment Agreement and directed Tenant to make the Base Rent payments directly to the Trustee, and Tenant has assented to such assignment and agreed to make the Base Rent payments directly to the Trustee without defense or setoff by reason of any dispute between Landlord, the Borrower, the Issuer or the Trustee.

Conditions. Excepting only the sale, assignment and transfer to the Trustee of the Landlord's rights set forth in the Assignment Agreement will confer no rights and will impose no obligations upon the Trustee beyond those expressly provided in the Indenture.

California Law. The Assignment Agreement will be governed by and construed and interpreted in accordance with the laws of the State of California.

Third-Party Beneficiary. The Borrower will be a third-party beneficiary of the Assignment Agreement.

CONTINUING DISCLOSURE AGREEMENT

Purpose of the Continuing Disclosure Agreement

The Continuing Disclosure Agreement is executed and delivered 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 Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Definitions

In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in the Continuing Disclosure Agreement unless otherwise defined below, the following capitalized terms will have the following meanings:

Annual Report will mean any Annual Report provided by The Regents pursuant to, and as described in, Sections 3 and 4 of the Continuing Disclosure Agreement.

Disclosure Representative will 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 will designate in writing to the Trustee from time to time.

Dissemination Agent will mean the BLX Group LLC, acting in its capacity as Dissemination Agent under the Continuing Disclosure Agreement, or any successor Dissemination Agent designated in writing by The Regents and which has filed with the Trustee a written acceptance of such designation.

Participating Underwriter will mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Repository will mean the Municipal Securities Rulemaking Board ("MSRB") or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the

MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

Rule will 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.

State will mean the State of California.

Provision of Annual Reports.

(A) The Regents will, or will 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, 2018, provide to the Repository an Annual Report which is consistent with the requirements described below. 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 described below; provided that the audited financial statements relating to the Bonds may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the Fiscal Year of The Regents changes, The Regents will give notice of such change in the same manner as for a Listed Event under paragraph (E) of the subheading "Reporting of Significant Event" below. If The Regents provides the Annual Report to the Repository, it will notify the Dissemination Agent that it has done so.

(B) Not later than fifteen (15) Business Days prior to the date specified in (A) above for providing the Annual Report to the Repository, The Regents will 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 will contact The Regents to determine if The Regents is in compliance with the first sentence of this paragraph.

(C) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in (A) above, the Dissemination Agent will send a notice, in electronic format unless otherwise designated by the SEC, to the Repository in substantially the form attached to the Continuing Disclosure Agreement.

(D) The Dissemination Agent will:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository; and

(ii) file a report with The Regents and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to the Continuing Disclosure Agreement, stating the date it was provided to the Repository.

Content of Annual Reports

The Annual Report will contain or include by reference the following:

(A) The audited financial statements of The Regents for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles applicable to public colleges and universities. If such audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report will contain unaudited financial statements in a format that complies with current Generally Accepted Accounting Principles, relating to the Bonds, and the audited financial statements will be filed in the same manner as the Annual Report when such financial statements become available.

(B) 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 will clearly identify each such other document so included by reference.

Reporting of Significant Events

(A) The Regents will give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, not later than ten 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 Regents.

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 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 will give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten 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 Bonds or other material events affecting the tax status of the Bonds;
2. Modifications to rights of Holders;
3. Optional, contingent or unscheduled Bond calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;

6. 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; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(C) The Trustee will, 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 the following paragraph (E).

(D) Whenever The Regents obtains knowledge of the occurrence of a Listed Event described in subsection (B), whether because of a notice from the Trustee pursuant to subsection (C) or otherwise, The Regents will 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) of the Continuing Disclosure Agreement, or determines that knowledge of a Listed Event described in Section 5(B) of the Continuing Disclosure Agreement would be material under applicable federal securities laws, The Regents will provide or cause to be provided a form of notice of such occurrence to the Dissemination Agent and will 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 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 will file a notice of such occurrence with the Repository in electronic format, accompanied by such identifying information as is prescribed by the Repository, with a copy to The Regents. Notwithstanding the foregoing, notice of Listed Events described in subsections (A)(7) and (B)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

Termination of Reporting Obligation

The Regents' obligations under the Continuing Disclosure Agreement will terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Dissemination Agent

The Regents may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent will not be responsible in any manner for the content of any notice or report prepared by The Regents pursuant to the Continuing Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee will be the Dissemination Agent.

Amendment; Waiver

Notwithstanding any other provision of the Continuing Disclosure Agreement, The Regents, the Dissemination Agent and the Trustee may amend the Continuing Disclosure Agreement (and the Dissemination Agent and Trustee each will agree to any amendment so requested by The Regents that does not adversely affect its rights or increase its duties under the Continuing Disclosure Agreement), and any provision of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(A) If the amendment or waiver relates to certain portions of the sections relating to the provision of annual reports, or the content of annual reports or the list of significant events, such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal

requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(B) The Continuing Disclosure Agreement, as amended or taking into account the waiver proposed, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(C) The amendment or waiver either (i) is approved by the Owners of the 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 Bonds.

In the event of any amendment or waiver of a provision of the Continuing Disclosure Agreement, The Regents will describe such amendment in the next Annual Report, and will 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 will be given in the same manner as for a Listed Event under paragraph (E) in the section entitled "Reporting of Significant Events," and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Additional Information

Nothing in the Continuing Disclosure Agreement will be deemed to prevent The Regents from disseminating any other information, using the means of dissemination set forth in the Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Continuing Disclosure Agreement. If The Regents chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Continuing Disclosure Agreement, The Regents will have no obligation under the Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Default

In the event of a failure of The Regents or the Trustee to comply with any provision of the Continuing Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Owners of at least 50% aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to it, will), or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause The Regents or the Dissemination Agent, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement will not be deemed an Event of Default under the Indenture or the Loan Agreement and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of The Regents or the Dissemination Agent to comply with the Continuing Disclosure Agreement will be an action to compel performance.

Duties, Immunities and Liabilities of Trustee and Dissemination Agent

The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) will have only such duties as are specifically set forth in the Continuing Disclosure Agreement, and The Regents agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties under the Continuing Disclosure Agreement, including the costs and expenses (including attorneys fees) of

defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of The Regents under this section will survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Beneficiaries

The Continuing Disclosure Agreement will 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 Bonds, and will create no rights in any other person or entity.

GROUND LEASE

DEFINITIONS

The following terms have the indicated definitions in the Ground Lease.

“Affiliate” means, as to any Person, any other Person that, directly or indirectly, Controls, is Controlled by, or is under common Control with such Person.

“Applicable Law” means all present and future laws, statutes, regulations, ordinances, resolutions and orders of any Governmental Authority.

“Assessments” means special assessments or levies or charges made by any municipal Governmental Authority or political subdivision thereof for local improvements.

“Assigned Agreements” means the Construction Contracts (as defined in the Development Agreement).

“Bankruptcy Code” shall mean Title 11 of the United States Code and any other Federal, state or foreign bankruptcy, insolvency, rehabilitation, reorganization, liquidation or similar laws, now or hereafter in effect.

“Bond Documents” means, collectively, the Indenture, the Loan Agreement and all other instruments or agreements executed by the Trustee, Issuer and Tenant in connection with the issuance and delivery of the Bonds and the proceeds thereof.

“Bonds” means those California Infrastructure and Economic Development Bank Revenue Bonds (UCSF 2130 Third Street), Series 2017.

“Building” means the facility on the Site.

“Business Day” means any day other than (a) a Saturday or a Sunday, (b) a day on which commercial banks in San Francisco, California or where the Trustee is located are authorized or obligated by law, government decree or executive order to be closed or (c) a day observed as a holiday by the State of California or the Federal government.

“Campus” means the University of California at San Francisco's Mission Bay Campus.

“Claims” shall mean any and all liabilities, obligations, damages, losses, demands, penalties, fines, claims, actions, suits, judgments, settlements, costs, expenses and disbursements, in each case reasonably incurred (including reasonable, actually incurred legal fees, expenses and costs of investigation).

“Control” (and the co-relative terms “Controlling,” “Controlled by,” and “under common Control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of outstanding securities, equity, or other beneficial ownership interests, by contract or otherwise.

“Developer” means SKS/Prado 2130 Third, LLC, a Delaware limited liability company.

“Developer Ground Lease” means that Sub Ground Lease of even date herewith between Tenant and Developer.

“Development Agreement” means that certain Lease Disposition and Development Agreement by and among Landlord, Tenant, and Developer with respect to the development of the Site.

“Disbursement Agreement” means that certain Disbursement Agreement among Tenant, Developer and Trustee related to the disbursement of a portion of the proceeds of the Bonds from Tenant to Developer.

“Effective Date” is the date of the Master Ground Lease.

“Event of Default” means each of the events specified under the heading “Events of Defaults and Remedies” below.

“Governmental Authority” means any and all entities, courts, boards, agencies, commissions, offices, divisions, subdivisions, departments, bodies or authorities of any nature whatsoever of any governmental unit (Federal, state, county, city or otherwise) whether now or hereafter in existence.

“Indemnitees” means Tenant and all of its officers, employees, directors, agents and consultants.

“Indenture” means that certain Indenture by and between Issuer and Trustee.

“Issuer” means that California Infrastructure and Economic Development Bank, and includes such party’s successor and assigns under the Indenture.

“Landlord” means The Regents of the University of California, a California Public Corporation.

“Lien” shall mean any lien, mortgage, deed of trust, hypothecation, encumbrance, pledge, collateral assignment, assignment, charge, lease, easement, right of way, license, servitude, right of others or security interest of any kind whatsoever, including any arising under any conditional sale or other title retention agreement.

“Loan Agreement” means that certain Loan Agreement between Issuer as lender and Tenant as borrower.

“Master Ground Lease” means that certain Master Ground Lease, dated December 14, 2017, made by and between Landlord, and Tenant.

“Party” and “Parties” means Tenant and, together with Landlord, collectively, the “Parties” and each, individually, a “Party”.

“Permitted Liens” means (i) the lien of real estate taxes, supplemental taxes, and assessments, (ii) encroachments of existing improvements into the public right of way, (iii) those exceptions identified in the survey, dated August 2, 2017, prepared by Ross Kinnie, L.S. 709 of Accurate Land Solutions, (iv) those exceptions identified in the title commitment, dated August 3, 2017, prepared by First American Title Company and (v) easements and rights of way for the benefit of Landlord.

“Person” means natural persons, firms, joint ventures, associations, trusts, partnerships, corporations, limited liability companies, public bodies, and similar entities, whether for profit or non-profit.

“Premises” means the Project and the Site.

“Project” means the development and construction of a facility on the Site.

“Property Taxes” means any and all governmental fees and charges, whether general or special, or ordinary or extraordinary, which may be levied, assessed, charged or imposed, or may become a Lien upon the Premises or any part or parts thereof, or upon Tenant’s Interest, including taxes on land, any buildings, any parking facilities or any other improvements now or hereafter at any time during the Term located at or on the Premises.

“Site” means that certain real property commonly known as 2130 Third Street, located in the City and County of San Francisco, State of California described in Exhibit A attached to the Master Ground Lease.

“Space Lease” means that certain Lease for the Premises by and between Developer, as landlord, and the University, as tenant, dated as of the Effective Date.

“Taking” means that if, during the Term, the Premises, or any portion thereof or interest therein, shall be appropriated, taken or damaged by reason of the exercise of the power of eminent domain, whether by condemnation proceedings or otherwise, or any transfer of the Premises shall be made in avoidance of an exercise of the power of eminent domain.

“Tenant” Campus Facilities Improvement Association, a California non-profit corporation.

“Tenant’s Interest” means Tenant’s entire interest in (i) the Site, (ii) the Project and (iii) this Master Ground Lease.

“Term” means the term of this Master Ground Lease shall commence on the Effective Date.

“Termination Date” means the date that the Space Lease expires or is earlier pursuant to its terms.

“Transaction Documents” means, collectively, the Space Lease, Developer Ground Lease, Development Agreement, this Master Ground Lease, the Disbursement Agreement, the Bond Documents, and the ancillary agreements entered into by and among Landlord, Tenant and Developer in connection therewith.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., as trustee (together with its successors and permitted assigns in such capacity).

“UCSF” means the University of California at San Francisco.

“University” means The Regents of The University of California, a California Public Corporation.

TERM OF LEASE

Lease. Landlord leases to Tenant, and Tenant leases from Landlord, the Site.

Term. The term of the Master Ground Lease (“Term”) will commence on the Effective Date and terminate as of the date the Space Lease is terminated or expires pursuant to its terms. The Master Ground Lease will expire without further notice at expiration of the Term, and no holding over will be permitted. Any holding over by Tenant after expiration will not constitute a renewal or extension nor will it give Tenant any rights in or to the Premises or any part thereof.

LEASE CONSIDERATION

Bond Documents and Developer Ground Lease. Tenant will: (i) enter into the Bond Documents to which it is a party, including the Loan Agreement, (ii) make a portion of the proceeds of the Bonds available to the Developer pursuant to the Disbursement Agreement, and (iii) ground lease the Site to the Developer pursuant to the Developer Ground Lease, all so that Developer may construct the Project in accordance with the Development Agreement.

Payment of Rent. There will be no rent payable under the Master Ground Lease.

USES AND RESTRICTIONS

Developer Ground Lease. Tenant will ground lease the Site to the Developer pursuant to the Developer Ground Lease so that Developer can construct the Project in accordance with the Development Agreement and the Developer Ground Lease. In the event that Tenant elects to terminate the Developer Ground Lease pursuant to its rights under the Developer Ground Lease, then Landlord will, at its sole cost and expense, take all such actions and execute all such documents as may be reasonably required in connection therewith.

Balance of Term. Upon Completion of the Project in accordance with the Development Agreement, the Premises will be occupied by the University pursuant to the Space Lease.

FINANCING OF PROJECT

Tenant will be responsible for undertaking the issuance of the Bonds and making a portion of the proceeds thereof available to Developer for construction of the Project and pursuant to the Disbursement Agreement. Any other financing which would encumber Tenant's Interest in the Master Ground Lease, or any amendment, renewal, refinancing, or refunding of any such financing, will be subject to the prior written approval of Landlord, which approval Landlord may grant or withhold at its sole and absolute discretion, and in no event will any other such financing create any Lien or claim on or with respect to, or otherwise encumber, any rights, interests, powers, benefits, privileges or other assets of Landlord, including the right, title and interest of Landlord in, to and under the Master Ground Lease or in its fee interest in the Site.

TAXES AND ASSESSMENTS

Taxes and Assessments. Landlord and Tenant have determined that the use of the Premises pursuant to the Master Ground Lease is exclusively in furtherance of the public purposes of Tenant and the University; therefore, the parties intend and expect that the leasehold estate of Tenant created by the Master Ground Lease, and the Project, will be eligible for exemption under California law from Property Taxes.

Maintenance of Exemption. Pursuant to the Developer Ground Lease Tenant will cause University to diligently pursue and attempt to maintain exemption of the Premises from Property Taxes. Landlord will cooperate with Tenant and Developer in pursuing and maintaining such exemption. Nothing contained in the Master Ground Lease is intended to change the degree to which the interest or estate of Tenant created by the Master Ground Lease is subject to Property Taxes; however, to the extent any Property Taxes are assessed, Landlord will have the responsibility to pay all Property Taxes.

Tax Obligations. Between the Parties, Landlord will pay all Property Taxes, including without limitation, all real estate taxes, taxes upon or measured by rents, personal property taxes, privilege taxes, gross receipts taxes, excise taxes, parking taxes, business and occupation taxes, gross sales taxes, occupational license taxes, water charges, sewer charges, or environmental taxes or assessments of any kind and nature whatsoever, including any possessory interest tax resulting from the Master Ground Lease, whether levied by the State of California, the government of the United States, or any agency thereof, or any other Governmental Authority during the Term, and whether or not now customary or within the contemplation of the Parties, and regardless of whether the same shall be foreseen or unforeseen, similar or dissimilar to any of the foregoing.

Assessment Obligations. Specifically, and without in any way limiting the generality of the foregoing, Landlord will pay any and all special assessments or levies or charges made by any municipal Governmental Authority or political subdivision thereof for local improvements ("Assessments"), and in accordance with the Applicable Laws and proceedings under which any such Assessments or levies or charges are made.

Right to Contest. Landlord will have the right, at its own expense, to contest the amount, imposition, applicability or validity of any Property Taxes and Assessments by appropriate proceedings which will operate to prevent the collection of any such Property Tax or Assessment so contested or the sale of the Premises or any part thereof to satisfy the same.

COMPLIANCE WITH APPLICABLE LAWS AND ORDINANCES

Pursuant to the Developer Ground Lease, at all times during the Term Tenant will cause Developer to conform to, obey, and comply in all material respects with all present and future Applicable Laws which in any way are applicable to the Master Ground Lease, the Developer Ground Lease, the Space Lease, any other Transaction Documents or the transactions contemplated thereunder, the use of the Premises, or any development, repair, replacement, demolition, renovation, construction, restoration, excavation, operation, maintenance and/or management being done on or to the Premises. Pursuant to the Developer Ground Lease, the Tenant will also require that the Developer not use, suffer, nor permit the Premises, or any part thereof to be used in any manner that would constitute a legal nuisance or an unreasonable annoyance to any student, employee, or visitor to the Campus or for any hazardous purpose. Without limiting the foregoing, Tenant recognizes that it is the practice of the Landlord to require payment of prevailing wage rates pursuant to any construction contract to improve space to be leased by the Landlord.

CONSTRUCTION OF IMPROVEMENTS

The Project will be developed and constructed by Developer pursuant to the Development Agreement and Developer Ground Lease.

Default in Construction. If Developer defaults in the performance of its obligations under the Developer Ground Lease or the Development Agreement, beyond any applicable notice and cure periods, then Tenant will cooperate with Landlord in the exercise of Landlord and Tenant's resulting rights under the Development Agreement and Developer Ground Lease, including, if requested by Landlord, the termination of the Development Agreement, the Developer Ground Lease or the Assigned Agreements or the Tenant's assumption of all Assigned Agreements, and the subsequent assignment of such Assigned Agreements to Landlord.

All Liens and Rights are Subordinate to Landlord. Tenant's rights, as well as the rights of any Person, including the rights of the Developer, the Issuer, or any lender, financing party, mortgagee, architect, engineer, independent contractor, sublessee, tenant, prime or general contractor, subcontractor (of any tier) mechanic, laborer, materialmen, or other Lien or claim holder, and any successor or assignee of the foregoing, will always be and remain subordinate, inferior, and junior to Landlord's title, interest, and estate in the Site. Tenant will not create or permit to be created or to remain, and shall discharge, any Lien upon the Site or on any other property or asset of Landlord, or any part thereof, or the income therefrom, other than Permitted Liens, and in no event shall any Permitted Liens have a priority or preference over or ranking on a parity with the estate, rights, or interest of Landlord in the Site or any part thereof, or the income therefrom. Nothing in the Master Ground Lease will be deemed or construed in any way as constituting the consent or request of Landlord, express or implied, by inference or otherwise, to the filing of any Lien against the Premises by any architect, engineer, independent contractor, prime or general contractor, subcontractor (of any tier), mechanic, laborer, materialmen or other Person for the performance of any labor or the furnishing of any materials or services for or in connection with the Premises or any part thereof.

Title to the Project. Pursuant to the Developer Ground Lease, title to the Building, including any modifications or additions thereto during the Term, will be vested in the Developer until the Termination Date, at which time all title to and ownership of the Building will automatically and immediately vest in Landlord (as assignee of Tenant's interests under the Developer Ground Lease), free and clear of any and all Liens other than Permitted Liens and at no additional cost to Landlord, provided that, if requested by Landlord, Tenant will (and will cause Developer to) execute such deeds, transfer and other instruments as may be reasonably requested by Landlord in connection therewith. Tenant will cause Developer to ensure that the title to and ownership of the Building is transferred to Landlord free and clear of any and all Liens other than the Permitted Liens.

EASEMENTS

Landlord reserves to itself the right to grant to others in the future nonexclusive access or utility easements, licenses or other rights of way over, under, through, across or on the Site in locations that will not unreasonably interfere with Tenant's or Developer's use of the Site.

OPERATION OF PROJECT

Upon the Completion of the Project in accordance with the Development Agreement, Tenant will cause the Developer, pursuant to the Developer Ground Lease, to deliver possession of the Project to the University pursuant to the Space Lease.

SECURITY INTEREST

Further Action and Documents. Tenant agrees that from time to time, at Landlord's expense, to promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that Landlord may reasonably request, in order to perfect and protect any pledge, assignment, security interest or other Lien granted or intended to be granted under the Development Agreement, the Developer Ground Lease or any other Transaction Document, and/or to enable Landlord to exercise and enforce its rights and remedies with respect to any Lien, including with respect to any Lien over the Assigned Agreements (including pursuant to the Development Agreement).

Financing Statements. Tenant authorizes Landlord to file at any time one or more financing and/or continuation statements, and amendments thereto, relating to all or any part of the Assigned Agreements (or with respect to any Lien in favor of Landlord under any other Transaction Document) without the signature of Tenant where permitted by Applicable Law.

Landlord May Perform; Power of Attorney. If Developer fails to perform any covenant or agreement contained in the Development Agreement, the Developer Ground Lease or any Assigned Agreement and if such failure shall continue uncured after the giving of notice and the expiration of any applicable cure period, Landlord may itself elect to perform, or cause the performance of, such covenant or agreement, and Tenant hereby assigns to Landlord any and all rights, powers, privileges and remedies it has pursuant to the Development Agreement, the Developer Ground Lease or any Assigned Agreement in connection therewith. Tenant hereby irrevocably appoints Landlord as Tenant's attorney-in-fact, with full power and authority in the place and stead of Tenant and in the name of Tenant or otherwise, if a default occurs by Developer under the Development Agreement, the Developer Ground Lease or any Assigned Agreement, beyond applicable notice and cure periods, to take any action and to execute any instrument which Landlord may deem necessary or desirable to accomplish the purposes of the Master Ground Lease, the Development Agreement, the Developer Ground Lease or any Assigned Agreement, including:

- (1) To obtain any insurance required pursuant to the Development Agreement, Developer Ground Lease or any Assigned Agreement in the event Developer fails to obtain such insurance;
- (2) To ask, demand, collect, sue for, recover, compromise, receive, and give acquittance and receipts for moneys due and to become due under or in connection with the Development Agreement, Developer Ground Lease or any Assigned Agreements; and
- (3) To file any claims or take any action or institute any proceedings which Landlord may deem necessary or desirable to enforce compliance with the terms and conditions of the Development Agreement, Developer Ground Lease and any Assigned Agreement or the rights of Landlord and Tenant with respect to any of the Development Agreement, Developer Ground Lease or any Assigned Agreements.

No Duty of Landlord. The powers conferred on Landlord under the Ground Lease are solely to protect its interests in this Master Ground Lease, the Development Agreement, the Developer Ground Lease, the Assigned Agreements, the other Transaction Documents and the Premises and shall not, in any event, impose any duty upon Landlord to exercise any such rights, powers, authorities or privileges. Landlord will have no duty to take any action to preserve any rights, powers, authorities or privileges against any Persons or any other rights, powers, authorities or privileges pertaining to the Master Ground Lease, the Development Agreement, the Developer Ground Lease, any Assigned Agreements or any other Transaction Documents.

ASSIGNMENT OF LEASE

Except for the ground lease of the Site to the Developer pursuant to the Developer Ground Lease, and the lease of the Project from the Developer to the University pursuant to the Space Lease, Tenant will not have the right to assign, transfer, lease, sublease, hypothecate or otherwise encumber Tenant's Interest or any portion thereof or any rights, powers, authorities or privileges appurtenant thereto, or to sublease the Premises or any portion thereof, without the prior written consent of Landlord, which consent may be withheld in Landlord's sole and absolute discretion, and which consent may be subject to any conditions reasonably required by Landlord to protect Landlord's economic and programmatic interests in the Master Ground Lease, the Development Agreement, the Developer Ground Lease, the Space Lease or the Premises. Any attempt to assign, transfer, lease, sublease, hypothecate or otherwise encumber without Landlord's consent shall be voidable by Landlord and, at Landlord's election, shall constitute an Event of Default under the Master Ground Lease.

MAINTENANCE OF PROPERTY

Pursuant to the Developer Ground Lease, Tenant will cause the Developer at all times during the Term to keep and maintain, or cause to be kept and maintained, the Premises and all adjoining areas out to the perimeter pavement, and appurtenances and every part thereof, and all structures or improvements that may exist on, in, or be made a part of the Premises, in a sanitary, clean and structurally sound condition. If Developer fails to perform any of its obligations as required under the Developer Ground Lease, after notice and right to cure, Landlord may (but shall not be required to) perform and satisfy the same.

INDEMNIFICATION BY LANDLORD

Except to the extent caused by the intentional wrongful acts or gross negligence of Tenant or any of the Indemnitees, Landlord releases and agrees to indemnify, defend and hold Tenant and Indemnitees from and against any and all Claims, caused by, arising out of, or otherwise happening in connection with the Transaction Documents or the development, construction, use, financing or occupancy of the Premises, or resulting from any acts or occurrences on or about the Premises during the Term of the Master Ground Lease.

Landlord acknowledges to Tenant that as between Landlord and Tenant, Landlord's obligation to pay to the Trustee the amounts specified as Base Rent pursuant to the Space Lease is absolute and unconditional. Landlord covenants that it shall make such payments in the amounts and at the times specified in the Space Lease regardless of whether the Building is complete or available for use for any reason including failure of the Developer to complete the development and construction of the Project, the alleged or actual invalidity of the Master Ground Lease, the Space Lease or any other document or agreement, or by virtue of any other reason or circumstance whatsoever, including, without limitation, the exercise of any right of reversion by Landlord's predecessor in interest. If any legal challenge are brought by any person that threatens the ability or legal authority of the University to make Base Rent payments pursuant to the Space Lease or otherwise would, could or might have the effect of causing a failure by the Issuer to make any payments on or with respect to the Bonds when due, then:

(a) Tenant will pay to the Trustee such amounts at such times as necessary to prevent any such failure, and

(b) Landlord will indemnify Tenant for any amounts required to be so paid by Tenant to the Trustee and will pay to Tenant such amounts and at such times as necessary so that Tenant will have sufficient funds to make any such payment when such payment is due without the necessity of Tenant making any such payment from its own funds.

The obligations of Landlord under this section will survive the expiration or earlier termination of the Master Ground Lease or any finding of invalidity or unenforceability thereof unless such finding expressly includes the provisions of this section. All proper Claims submitted to Landlord under the Ground Lease shall be paid within thirty (30) days after receipt of such Claims by Landlord.

INSURANCE

Unless required in connection with the Bond Documents, Tenant will not be required to maintain any insurance with respect to the Premises in connection with the Master Ground Lease, but will require that the Developer, and where applicable, the University, maintain the insurance required pursuant to the Development Agreement, Developer Ground Lease and Space Lease.

DAMAGE AND DESTRUCTION

Should the Premises be damaged or destroyed, in whole or in part, by fire, flood, earthquake, windstorm or other inclement weather conditions, casualty, accident, war, riot, public disorder, acts of any Governmental Authority, or any other cause or happening, the Development Agreement, the Developer Ground Lease and the Space Lease, as applicable, will govern the parties' respective rights and obligations; provided Tenant shall take no actions in connection therewith without the expressed prior written consent of Landlord in each instance. The provisions of the Master Ground Lease constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises and any statute or regulation of the State of California, including Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the Parties, and any other statute or regulation, now or hereafter in effect, shall have no application to the Master Ground Lease or any damage or destruction to all or any part of the Premises.

CONDEMNATION

If, during the Term, the Premises, or any portion thereof or interest therein, shall be appropriated, taken or damaged by reason of the exercise of the power of eminent domain, whether by condemnation proceedings or otherwise, or any transfer of the Premises shall be made in avoidance of an exercise of the power of eminent domain (all of the foregoing being hereinafter referred to as a "Taking"), the rights and obligations of Landlord and Tenant with respect to said Taking shall be as set forth in the Developer Ground Lease and Space Lease; provided Tenant will take no actions in connection therewith without the expressed prior written consent of Landlord. Tenant waives any and all rights it might otherwise have pursuant to Sections 1265.130 and 1265.150 of the California Code of Civil Procedure.

EVENTS OF DEFAULT AND REMEDIES

Events of Default Defined. The following shall be "Events of Default" under the Ground Lease, and the terms "Event of Default" or "Default" shall mean, whenever they are used herein, any one or more of the following events:

(a) Tenant fails to perform or cause to be performed any term, covenant, condition, or provision hereof, and to correct such failure within thirty (30) days after written notice specifying such failure is given to Tenant by Landlord. In the case of any such failure that cannot with due diligence be corrected within such thirty (30) day period but can be wholly corrected within a period of time not materially detrimental to the rights of Landlord, it shall not constitute an Event of Default if corrective action is instituted by Tenant within such thirty (30) day period and diligently pursued until the failure is corrected.

(b) Tenant (i) is dissolved, liquidated or terminated or be adjudicated as bankrupt or insolvent; (ii) makes a general assignment for the benefit of its creditors; (iii) files a petition, answer, or consent seeking, or have entered against it (or fail reasonably to contest the material allegations of any petition for) an order for relief under any provision of the Bankruptcy Code (or any similar remedy under any provision of the Bankruptcy Code), or consent to the institution of any proceedings thereunder; (iv) convenes a meeting of its creditors, or any class thereof, for the purpose of effecting a moratorium upon or extension or composition of its debts; (v) admits in writing that it is generally not able to pay its debts as they mature or generally not pay its debts as they mature; or (vi) applies for a consent to the appointment of a receiver, trustee, custodian, liquidator or other similar official of all or a portion of its assets.

(c) The occurrence of any of the following: (i) a petition is filed or any case or proceeding described in (b) above is commenced against Tenant or against the assets of Tenant unless such petition and the case or proceeding initiated thereby is dismissed within ninety (90) days from the date of the filing; (ii) an answer is filed by Tenant admitting the allegations of any such petition; or (iii) a court of competent jurisdiction enters an order, judgment or decree appointing, without the consent of Tenant, a custodian, trustee, agent, or receiver of Tenant or for all or any part of its assets or authorizing the taking possession by a custodian, trustee, agent or receiver of Tenant of all or any part of its assets unless such appointment is vacated or dismissed or such possession is terminated within ninety (90) days from the date of such appointment or commencement of such possession, but not later than five (5) days before the proposed sale of any assets of Tenant by Tenant's custodian, trustee, agent or receiver, other than in the ordinary course of the business of Tenant;

(d) The Premises or Tenant's effects or interests therein will be levied upon or attached under process against Tenant, and the same will not be satisfied or dissolved within ninety (90) days after notice from Landlord to Tenant to obtain satisfaction or dissolution thereof.

(e) Tenant is in default under the Development Agreement beyond applicable notice and cure periods.

(f) Tenant is in default under the Developer Ground Lease beyond applicable notice and cure periods.

(g) Tenant is in default under the Bond Documents or any other Transaction Document beyond applicable notice and cure periods.

(h) Any other event that is expressly stated to be an Event of Default elsewhere in the Master Ground Lease.

Remedies. Upon the occurrence of an Event of Default, Landlord may pursue one of the following remedies in addition to any other remedies it may have under Applicable Law or in equity, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever:

(a) Cause Tenant to assign its interest in any of the Transaction Documents to an entity of Landlord's choosing.

(b) Landlord may, but shall not be obligated to, make any payment or perform or otherwise cure any obligation, provision, covenant or condition on Tenant's part to be observed or performed (and may enter the Premises for such purposes if needed). Any damages or judgments arising out of Tenant's default of its obligations under the Ground Lease shall be satisfied only out of Tenant's interest and estate in the Premises, and Tenant shall have no personal liability beyond such interest and estate with respect to such damages or judgments.

(c) If the Space Lease has been terminated, terminate the Master Ground Lease.

No Waiver. No waiver by Landlord of any non-compliance, violation or breach by Tenant of any of the terms, provisions or covenants contained in the Master Ground Lease will be effective unless in writing or will be deemed or construed to constitute a waiver of any other or later non-compliance, violation or breach by Tenant of the same or any other of the terms, provisions, and covenants. Forbearance by Landlord in enforcement of one or more of the remedies provided upon a default by Tenant shall not be deemed or construed to constitute a waiver of such default.

Landlord Default. Landlord is not in default under the Ground Lease unless Landlord fails to perform any of its obligations within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant to Landlord specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. Any damages or judgments arising out of Landlord's default of its obligations

under the Master Ground Lease shall be satisfied only out of Landlord's interest and estate in the Premises, and Landlord shall have no personal liability beyond such interest and estate with respect to such damages or judgments.

EXPIRATION OR TERMINATION

No Termination During Space Lease Term. The Master Ground Lease shall not be terminated for any reason whatsoever while the Space Lease remains in full force and effect. Upon the expiration or earlier termination of the Space Lease for any reason whatsoever, the Term of the Master Ground Lease shall automatically end, and all rights, benefits, privileges and interests of Tenant under the Master Ground Lease (as well as of all Persons whomsoever claiming by, through or under Tenant, including Developer and its permitted successors and assigns), shall immediately cease and terminate, and the Premises, including all improvements, infrastructure, engines, machinery, generators, boilers, furnaces, elevators, fire escapes, and all lifting, lighting, heating, cooling, refrigerating, air conditioning, ventilating, gas, electric and plumbing apparatus, appliances and fixtures, as well as other fixtures attached to or within the Premises, and all personal property of Tenant and Developer located thereon, will thence forward constitute and belong to and be the absolute property of Landlord or Landlord's designee(s), successors and assigns, without further act or conveyance, and without liability to make any payment or other compensation to Tenant, Developer, or to any other Person whomsoever, and free, clear and discharged from all and every Lien and claim of any nature or character created or attempted to be created by Tenant or Developer (or by any Person claiming by, through or under Tenant or Developer) at any time. Tenant agrees, at the end of the Term, to surrender unto Landlord, the Premises with then existing buildings, other structures, infrastructure, fixtures and improvements constructed and located thereon and therein, in the condition then existing.

SUBMISSION OF MATTERS TO LANDLORD FOR APPROVAL

Any matter which must be submitted to and consented to or approved in writing by Landlord, as required under the Master Ground Lease, shall be submitted to Landlord in accordance with the Master Ground Lease. Any review by Landlord of any matter submitted to Landlord is for Landlord's own convenience and purpose only. By undertaking such review, Landlord does not obtain or have any liability to Tenant or any other Person, including the insurers and lenders or other financing parties of Tenant.

HOLDING OVER BY TENANT

Tenant will not use or remain in possession of the Premises after the end of the Term. There shall be no renewal whatsoever of the Master Ground Lease by operation of law.

MISCELLANEOUS

Preservation of Tax Status of Bonds. Neither Party will take any action with respect to the Project that would adversely affect the exclusion of the interest payable on the Bonds from gross income for Federal income tax purposes. Neither Party will take any action with respect to the Project which would otherwise result in a breach of any representations, warranties, conditions, or covenants of Tenant or Landlord as set forth in the Bond Documents.

SUB GROUND LEASE

DEFINITIONS

The following terms have the indicated definitions in the Sub Ground Lease:

"Additional Ground Rent" any amounts payable by Tenant to Landlord under the Sub Ground Lease other than Base Ground Rent.

"Applicable Law" means all present and future laws, ordinances, rules, codes, regulations, permits, authorizations, orders and requirements, whether or not in the contemplation of the Parties, which may affect or be applicable to the Site or any part of the Site (including any subsurface area, use of the Site, the Building and the Premises and improvements on or affixed to the Site), including all consents or approvals required to be obtained

from, and all rules and regulations of, and all building and zoning laws of, all federal, state, county, local and municipal Governmental Authorities, board of officers, any national or local board of fire underwriters, or any other body or bodies exercising similar functions, having or acquiring jurisdiction over the Site or the Premises, and including, without limitation, policies of the University as may be applicable after the effective date of the Development Agreement.

“Assessments” means any and all special assessments or levies or charges made by any municipal or political subdivision for local improvements.

“Assigned Agreements” means the Construction Contracts (as defined in the Development Agreement).

“Base Ground Rent” means the base ground rent payable to Landlord under the Sub Ground Lease, which shall be at all times equivalent to the Space Lease Base Rent.

“Base Ground Rent Commencement Date” will be the same date as the Space Lease Base Rent Commencement Date.

“Base Ground Rent Payment Date” means the Base Ground Rent Commencement Date and each subsequent date specified in the schedule attached hereto as Exhibit C, provided that if the corresponding Space Lease Base Rent is not paid or payable on such date, then the applicable Base Ground Rent Payment Date shall be the applicable date upon which the corresponding Space Lease Base Rent is actually paid.

“Base Rent Assignment Agreement” shall mean that certain Base Rent Assignment Agreement by and among the University, the Tenant, the Landlord and the Trustee dated as of the Effective Date.

“Bond Documents” means, collectively, the Indenture, the Loan Agreement, and all other instruments or agreements executed by the Trustee, Issuer and/or Landlord in connection with the issuance and delivery of the Bonds and the proceeds thereof.

“Bond Trustee” or “Trustee” means The Bank of New York Mellon Trust Company, N.A., as trustee (together with its successors and permitted assigns in such capacity).

“Bonds” means those certain Bonds issued by California Infrastructure and Economic Development Bank.

“Bonds Commencement Date” means the date upon which the Bonds are issued in exchange for payment.

“Business Day” means any day other than (i) a Saturday or a Sunday, (ii) a day on which commercial banks in San Francisco, California or where the Trustee is located are authorized or obligated by law, government decree or executive order to be closed or (iii) a day observed as a holiday by the State of California or the Federal government.

“Campus” means the University of California at San Francisco’s Mission Bay Campus.

“Casualty” means should the Premises be damaged or destroyed, in whole or in part, by fire, flood, earthquake, windstorm, the elements, casualty, accident, war, riot, public disorder, acts authorized or unauthorized by the government or any other cause or happening.

“Claims” means all claims, demands, liabilities, losses, costs, or expenses for any loss including bodily injury (including death), personal injury, property damage, expenses, and reasonable attorneys’ fees.

“Completion” is defined in the Development Agreement and refers to the completion of construction of the Improvements.

“Consumer Price Index” or “CPI” means the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, San Francisco/Oakland/San Jose, California Average,

subgroup “All Items” (1982-84=100). If at any time during the Term said index is terminated or does not have the format recited above, the Parties shall, by mutual agreement, select a comparable official index that may be published by the Bureau of Labor Statistics or a successor or similar governmental agency as may then exist or be most nearly equivalent thereto.

“Control” (and the co-relative terms “Controlling,” “Controlled by,” and “under common Control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of outstanding securities, equity, or other beneficial ownership interests, by contract or otherwise.

“Current Dollars” means a dollar amount calculated by multiplying a dollar amount specified in this Sublease by a fraction, the numerator of which is the Consumer Price Index last published prior to the date upon which such amount is calculated and the denominator of which is the Consumer Price Index last published prior to the Effective Date.

“Developer” means Tenant, in its capacity as “Developer” under the Development Agreement, and its successors and permitted assigns.

“Development Agreement” means that certain Lease Disposition and Development Agreement by and among Landlord, Tenant and the University.

“Disbursement Agreement” means that certain Disbursement Agreement by and among Landlord, Tenant, Trustee and the University and related to the disbursement of a portion of the proceeds of the Bonds from Landlord to Tenant.

“Effective Date” means the date of the Sub Ground Lease.

“Event of Default” means each of the events specified under the heading “Events of Defaults and Remedies” below.

“First Class Condition” shall mean a condition comparable to other “Class A” clinical and administrative buildings of comparable age and condition in the Mission Bay sub-market area.

“Governmental Authority” means any and all entities, courts, boards, agencies, commissions, offices, divisions, subdivisions, departments, districts, bodies or authorities of any nature whatsoever of any governmental unit (federal, state, county, city or otherwise) whether now or hereafter in existence (for the avoidance of doubt, Landlord and the University are not Governmental Authorities within the context of the Sub Ground Lease).

“Ground Lease Assignment Agreement” means an assignment agreement in substantially the same form as the Space Lease Assignment Agreement.

“Ground Rent” means, collectively, Base Ground Rent plus any Additional Ground Rent.

“Hazardous Material” means (i) any asbestos and asbestos containing materials whether or not such materials are part of the structure of any existing improvements on the Premises, any improvements to be constructed on the Premises by or on behalf of Tenant, or are naturally occurring substances on, in or about the Premises; (ii) any oil and petroleum based derivative, including crude oil or any fraction; (iii) natural gas or natural gas liquids; (iv) lead containing materials; (v) substances designated as hazardous or toxic under the Resource Conservation and Recovery Act, 42 U.S.C. §6901, et seq., the Federal Water Pollution Control Act, 33 U.S.C. §1257, et seq., the Clean Air Act, 42 U.S.C. §2001, et seq., or the Comprehensive Environmental Response Compensation and Liability Act of 1980, 42 U.S.C. §9601, et seq., or any other Federal or State law or regulation now or in the future applicable to the Premises, Building or Site, The National Institute of Health, CDC and FDA rules and guidelines; and (vi) any substance which after release into the environment and upon exposure, ingestion, inhalation or assimilation, either directly from the environment or directly by ingestion through food chains, will or may reasonably be anticipated to cause death, disease, behavior abnormalities, cancer and/or genetic abnormalities.

“Hazardous Material Laws” means any present or future federal, state or local Applicable Law or policies relating to Hazardous Material or to human health and safety, industrial hygiene or environmental conditions in, on, under or about the Premises and any other property, including soil, air, air quality, water, water quality and groundwater conditions.

“Improvements” means the facility to be developed and constructed by Tenant on the Leased Land (as more particularly described in the Development Agreement) to be used to achieve the University’s goal of creating an integrated center for youth, family and adult psychiatry at UCSF and other programs and faculty whose work in the judgment of the UCSF Department of Psychiatry is consistent with the Department of Psychiatry’s programs and goals.

“Indemnitees” means the Landlord, Trustee and all of their respective officers, employees, directors, agents, and consultants.

“Indenture” means that certain Indenture between the Issuer and the Trustee with respect to the Bonds, as the same may be amended and/or supplemented from time to time in accordance with the provisions thereof.

“Interest Rate” means the lesser of (i) ten percent (10%) per annum or (ii) the highest rate permitted by Applicable Laws.

“Issuer” means the California Infrastructure and Economic Development Bank and includes such party’s successor and assigns under the Indenture.

“Landlord” means Campus Facilities Improvement Association and its successors and assigns.

“Landlord Representative” means the Person (or Persons) designated by Landlord pursuant to the Development Agreement, to serve as Landlord’s exclusive representative(s) in connection with the design, acquisition, construction, furnishing, equipping, and operation of the Improvements.

“Leased Land” means that certain real property commonly known as 2130 Third Street, located in the City and County of San Francisco, State of California described in Exhibit A attached to the Sub Ground Lease.

“Lien” shall mean any lien, mortgage, deed of trust, hypothecation, encumbrance, pledge, collateral assignment, assignment, charge, lease, easement, right of way, license, servitude, right of others or security interest of any kind whatsoever, including any arising under any conditional sale or other title retention agreement.

“Loan Agreement” means the Loan Agreement between the Issuer and Landlord, as the same may be amended and/or supplemented from time to time in accordance with the provisions of the Indenture.

“Master Ground Lease” means that certain Master Ground Lease, dated December 14, 2017, made by and between Landlord, as tenant, and University, as landlord.

“Net Proceeds” means, when used with respect to an insurance or condemnation award, or with respect to any other recovery on a contractual claim or a claim for damage to or for taking of property, the gross proceeds from such award or recovery less the reasonable amounts paid for expenses (including attorneys’ fees and any extraordinary expenses of the Trustee) incurred in the collection of such gross proceeds.

“Party” and “Parties” means Assignor and, together with Assignee, each a “Party” and collectively, the “Parties”.

“Permitted Transferee” (a) a corporation or other business entity or person into which Tenant is merged or consolidated; (b) a corporation or other business entity or person to which substantially all of Tenant’s assets are transferred; or (c) a corporation or other business entity or person that Controls, is Controlled by, or is under common Control with Tenant.

“Permitted Transfers” shall mean (a) transfers of shares of stock, membership interests, partnership interests and other interests in the direct or indirect holders of the beneficial interests in Tenant, provided, that following any such transfer, an entity that Controls, is Controlled by, or is under common Control with The Prado Group, Inc., and/or an entity that Controls, is Controlled by, or is under common Control with SKS Partners, LLC shall continue to Control Tenant and (b) transfers to Permitted Transferees.

“Person” means natural persons, firms, joint ventures, associations, trusts, partnerships, corporations, limited liability companies, public bodies, and similar entities, whether for profit or non-profit.

“Premises” means the Improvements and the Leased Land.

“Property Taxes” means the property taxes (including supplemental taxes, special assessments and other ad valorem assessments, transfer taxes, and taxes) applied to the Improvements, leasehold interest in the Improvements, or the Leased Land.

“Remediation” means to take all investigatory and/or remedial action that is necessary in order to clean up, remove and dispose of such Hazardous Materials on, in, under or about the Premises or the underlying groundwater or the properties adjacent to the Premises, all in compliance with all Applicable Laws.

“Site” means that certain real property commonly known as 2130 Third Street, located in the City and County of San Francisco, State of California described in Exhibit A attached to the Sub Ground Lease.

“Space Lease” means that certain Space Lease for the Premises by and between Tenant, as Landlord, and the University, as Tenant, which shall commence on the Space Lease Commencement Date.

“Space Lease Assignment Agreement” means a lease assignment agreement between Landlord (or its designee), Tenant and University, in the form attached to the Sub Ground Lease as Exhibit B.

“Space Lease Base Rent” means the monthly Base Rent under the Space Lease that is related to the Bonds and is payable by University directly to the Trustee as assignee of Tenant.

“Space Lease Base Rent Commencement Date” means the first day Space Lease Base Rent is due and payable under the Space Lease.

“Space Lease Commencement Date” means the first day of the term of the Space Lease.

“State” means the State of California.

“Sub Ground Lease” means that certain Sub Ground Lease dated December 14, 2017, made by and between Landlord and Tenant.

“Substantial Completion Date” has the meaning ascribed thereto in the Space Lease.

“Taking” means that if, during the Term, the Premises, or any portion thereof or interest therein, shall be appropriated, taken or damaged by reason of the exercise of the power of eminent domain by any entity except the University, whether by condemnation proceedings or otherwise, or any transfer thereof shall be made in avoidance of an exercise of the power of eminent domain by any entity except the University.

“Tenant” means SKS/Prado 2130 Third, LLC, a Delaware limited liability company.

“Tenant’s Interest” means Tenant’s entire interest in (i) the Leased Land, (ii) the Improvements, and (iii) this Sublease.

“Term” means the term of the Sub Ground Lease, which shall commence on the Space Lease Commencement Date.

“Termination Date” means the date on which the Term hereof ends by termination or expiration of the Sub Ground Lease.

“Transaction Documents” means the Sub Ground Lease, the Master Ground Lease, the Space Lease, the Disbursement Agreement, the Agreed Disbursement Procedures, the Development Agreement Guaranty, the Affirmation of Development Agreement Guaranty and the other documents referred to herein to be executed, delivered and/or recorded by the Parties hereunder in connection with the transactions contemplated hereunder.

“University” means The Regents of The University of California, a California Public Corporation.

“Utility Services” means all utilities required, used, or consumed on the Premises, including gas, water (including water for domestic uses, irrigation and fire protection), telephone, electricity, cable TV, satellite, internet, digital information, sewer service, garbage collection services, or any similar service.

“Work” means the scope of Tenant’s obligations, in its capacity as Developer, to design, develop, install and complete construction of the Improvements in accordance with the terms of the Development Agreement.

TERM OF LEASE

Lease. In consideration of the covenants and agreements to be performed and observed by Tenant, Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Leased Land.

Term. The term of the Sub Ground Lease will commence on the Space Lease Commencement Date and terminate at the earlier of (i) the last day of the term of the Space Lease, or (ii) such other date that the Sub Ground Lease is sooner terminated in accordance with the terms of the Sub Ground Lease. The Sub Ground Lease will expire without further notice at expiration of the Term, and no holding over will be permitted. Any holding over by Tenant after expiration will not constitute a renewal or extension nor will it give Tenant any rights in or to the Premises or any part thereof.

Early Termination. In addition to the remedies provided in the Sub Ground Lease, Landlord may, upon delivery of written notice to Tenant and the Trustee, terminate the Sub Ground Lease in its entirety before expiration of the Term in the event that the Development Agreement is terminated prior to Completion. As a condition to Landlord’s right to terminate the Sub Ground Lease, Landlord must either: (a) assume the Tenant’s interest in the Space Lease and keep the Space Lease in full force and effect, and deliver an opinion of nationally recognized bond counsel to the effect that such actions do not adversely affect the tax-exempt status of the Bonds, (b) arrange for assumption of Landlord’s interest in the Sub Ground Lease by the University, as Landlord under the Master Ground Lease, or (c) acquire the uncompleted Improvements, in which case Landlord shall pay to the Trustee all amounts then required by the Trustee for defeasance and payment of the Bonds (either at maturity or, if sooner, on their first optional redemption date) in accordance with their terms.

LEASE CONSIDERATION

Construction Obligations. Tenant shall perform the Work in accordance with the terms and conditions set forth in the Development Agreement.

Payment of Rent. Rent will be paid to Landlord in accordance with the provisions of the Sub Ground Lease.

Base Ground Rent. The Base Ground Rent payable to Landlord under the Sub Ground Lease will be equal to the Space Lease Base Rent, which will be paid by the University directly to the Trustee pursuant to the Base Rent Assignment Agreement, on behalf and as assignee of the Tenant, and also on behalf and an assignee of Landlord. The Base Ground Rent will be paid on each Base Ground Rent Payment Date starting on the Base Ground Rent Commencement Date. All such payments of Space Lease Base Rent will be fully credited to Tenant’s obligation to pay Base Ground Rent under the Sub Ground Lease. The obligation of Tenant to make the Base Ground Rent payments is absolute and unconditional, and until such time as the total Base Ground Rent payable under the Sub

Ground Lease has been paid in full (or provision for the payment thereof will have been made pursuant to the Indenture and the Sub Ground Lease), the Tenant will not discontinue or suspend any payment of Base Ground Rent, whether or not the Premises or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by set-off or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever. Tenant will execute and deliver the Base Rent Assignment Agreement so that the Space Lease Base Rent is paid directly to the Trustee, and further agrees that Landlord may enforce the Base Rent Assignment Agreement (directly or through a direction to the Trustee) in order to assure that such Space Lease Base Rent is paid directly to the Trustee.

Additional Ground Rent. To the extent that Tenant is obligated to pay any Additional Ground Rent under the Sub Ground Lease, and does not pay such amounts directly in accordance with the provisions set forth in the Sub Ground Lease, such amounts will be paid to Landlord in immediately available funds, in lawful money of the United States of America, within fifteen (15) days after written demand therefor.

USES AND RESTRICTIONS

Construction Period. Tenant is authorized from the Effective Date until the date of Completion of the Improvements to perform the Work in accordance with the Development Agreement.

Balance of Term. Thereafter the Premises will be occupied by the University pursuant to the terms of the Space Lease.

FINANCING OF PROJECT

A portion of the Bond proceeds will be applied towards the design, construction, furnishing, equipping, and operation of the Improvements, in accordance with the terms of the Development Agreement and the Disbursement Agreement. Tenant has reviewed the Bond Documents and, as of the Effective Date, will provide to Landlord and the Trustee, a certificate confirming its review of the Bond Documents and consenting to the financing of the Improvements on the terms set forth therein. All financing obtained by Tenant which encumbers Tenant's Interest in the Sub Ground Lease, or any amendment, extension, replacement renewal, refinancing, or refunding of any such financing, during the Term of the Sub Ground Lease shall be subject to the prior written approval of Landlord, which approval will not be unreasonably withheld, conditioned or delayed, and in no event shall the documents evidencing any such financing encumber the interest of Landlord in the Sub Ground Lease or the University's interest in the Master Ground Lease or its fee interest in the Leased Land and its other assets. Tenant will have no responsibility or liability for any administrative costs or other expenses, fees or costs that may from time to time be required to be paid in connection with the Bonds.

TAXES AND ASSESSMENTS

Taxes and Assessments. Landlord and Tenant have determined that the use of the Premises pursuant to the Sub Ground Lease is in furtherance of achieving the University's goal of creating an integrated center for youth, family and adult psychiatry at UCSF and other programs and faculty whose work in the judgment of the UCSF Department of Psychiatry is consistent with the Department of Psychiatry's programs and goals; therefore, the Parties intend and expect that the leasehold estate of Tenant created by the Sub Ground Lease and the Improvements will be eligible for exemption, under California law, from Property Taxes. Nonetheless, Landlord makes no representation or warranty regarding Property Taxes, and Landlord shall bear no responsibility for the assessment thereof..

Maintenance of Exemption. Landlord will, and will cause the University to, diligently pursue and attempt to maintain exemption of the Premises from Property Taxes (and Tenant shall cooperate, at no cost to Tenant, in connection with the same at Landlord's request). Nothing contained in the Sub Ground Lease is intended to change the degree to which the interest or estate of Tenant created by the Sub Ground Lease is subject to Property Taxes; however, to the extent any Property Taxes are assessed, then subject to any provisions in the Space Lease allocating

the obligation to make such payment, Tenant and Landlord shall have the responsibilities and rights set forth in the Sub Ground Lease.

Tax Obligations. In the absence of an applicable exemption, Tenant will pay, as Additional Ground Rent, prior to the delinquency date thereof, all Property Taxes, but only to the extent Tenant is reimbursed for the same by the University under the Space Lease at least ten (10) Business Days prior to such delinquency date. Tenant's obligation to pay Property Taxes includes, the obligation to pay all real estate taxes, taxes upon or measured by rents, personal property taxes, privilege taxes, gross receipts taxes, excise taxes, parking taxes, business and occupation taxes, gross sales taxes, occupational license taxes, water charges, sewer charges, or environmental taxes or assessments of any kind and nature whatsoever, levied by the State of California, the government of the United States, or any agency thereof, or any other governmental body or assessment district during the Term, whether or not now customary or within the contemplation of the parties hereto and regardless of whether the same shall be foreseen or unforeseen, similar or dissimilar to any of the foregoing.

Assessment Obligations. Specifically, and without in any way limiting the generality of the foregoing, Tenant will pay, before they become delinquent, any and all special assessments or levies or charges made by any municipal or political subdivision for local improvements ("Assessments"), and as required by the act and proceedings under which any such Assessments or levies or charges are made, and Tenant will furnish to Landlord written proof of such payment upon written request. If the right is given to pay any of the Property Taxes, Assessments, or other impositions which Tenant is obligated to pay either in one sum or in installments, Tenant may elect either mode of payment. Notwithstanding the foregoing, Landlord acknowledges that it is the obligation of the University under the Space Lease to pay, before they become delinquent, certain Assessments, and as required by the act and proceedings under which any such Assessments or levies or charges are made, and Tenant shall have no liability to Landlord for any failure to pay such Assessments if such failure is due to the University's failure under the Space Lease to pay the same.

Right to Contest. Tenant shall have the right, at its own expense, to contest or to permit the University as tenant under the Space Lease to contest, the amount or validity of any Property Taxes and Assessments by appropriate proceedings, diligently conducted in good faith, which shall operate to prevent the collection of any such Property Tax or Assessment so contested or the sale of the Premises or any part thereof to satisfy the same. Tenant will, if requested by Landlord to do so in order to protect Landlord from any sale or foreclosure against the Premises or any part thereof, provide a good and sufficient surety bond or other security deemed appropriate by Landlord in the amount of such Property Tax or Assessment plus estimated penalties which may be imposed, provided further that Tenant shall bear any and all costs, liability, or damage, including attorneys' fees and costs arising out of such contest.

Exclusion of Certain Property Taxes. Tenant's obligation to pay Property Taxes and Assessments levied and assessed against the Premises or any part thereof will exclude business, income, or profits taxes levied or assessed solely against Landlord by Federal, State, or other Governmental Authorities, unless such Property Tax or Assessment is levied in lieu of Property Taxes and Assessments which would have been otherwise payable by Tenant under the Sub Ground Lease.

COMPLIANCE BY TENANT WITH APPLICABLE LAWS AND ORDINANCES

At all times during the term of the Sub Ground Lease, the Tenant will conform to, obey, and comply in all material respects with all present and future Applicable Laws which in any way are applicable to the Sub Ground Lease or the use of the Premises or any repair, replacement, demolition, renovation, construction, restoration, or excavation being done on or to the Premises. The Tenant will use its diligent efforts not to use, or to suffer or to permit the Premises, or any part thereof to be used in any manner that would constitute a legal nuisance or an unreasonable annoyance to any student, employee, or visitor of or to the Campus or the University or for any hazardous purpose in violation of Laws. If, at any time during the Term of the Sub Ground Lease, any addition, alteration, change, or repair or other work of any nature, structural or otherwise, be lawfully required or ordered by an applicable Governmental Authority or become necessary on account of any Applicable Law then in effect, the entire expense thereof, will be paid by the Tenant (subject to the terms of the Space lease) and, in no event, shall the Landlord be called upon to contribute thereto or do or pay for any work of any nature whatsoever on or relating to the Premises. Notwithstanding the foregoing, during the term of the Development Agreement, to the extent there is

any conflict between the provisions of the Development Agreement with regard to the matters set forth in the Sub Ground Lease, and the provisions set forth in the Sub Ground Lease, the provisions of the Development Agreement shall control. Tenant recognizes that it is the practice of the University to require payment of prevailing wage rates pursuant to any construction contract to improve space to be leased by the University.

CONSTRUCTION OF IMPROVEMENTS

Landlord and Tenant have entered into the Development Agreement and each agrees to perform its obligations thereunder in accordance with the terms thereof.

All Liens and Rights are Subordinate to Landlord. Tenant's rights, as well as the rights of any other Person (other than University and Issuer) claiming under Tenant, including the rights of any mortgagee, architect, independent contractor, assignee, sublessee, subcontractor, prime or general contractor, mechanic, laborer, materialmen, or other Lien or claim holder claiming under Tenant (but not under the University), will always be and remain subordinate, inferior, subject and junior to Landlord leasehold and University's fee title, interest, and estate in the Leased Land. Except as otherwise expressly permitted hereunder, Tenant shall not create or permit to be created or to remain, and shall discharge (but Tenant will have no obligation to prevent the University, Issuer or Landlord, or any of their affiliates from creating) any Lien levied on account of any mechanic's, laborer's, or materialman's Lien, or any security agreement, conditional bill of sale, title retention agreement, chattel mortgage, or otherwise that constitutes a Lien upon the Leased Land, or any part thereof, or the income therefrom, having a priority or preference over or ranking on a parity with the estate, rights, or interest of Landlord or the University in the Leased Land or any part thereof, or the income therefrom. Nothing in the Sub Ground Lease will be deemed or construed in any way as constituting the consent or request of Landlord, express or implied, by inference or otherwise, to the filing of any Lien against the Premises by any contractor, subcontractor, laborer, materialmen, architect, engineer, or other Person for the performance of any labor or the furnishing of any materials or services for or in connection with the Premises or any part thereof.

Title to the Project. Title to the Improvements, including any modifications or additions thereto during the Term shall be vested in Tenant until the Termination Date, at which time all title to and ownership of the Improvements shall automatically and immediately vest (without the necessity of any further action being taken by Tenant or Landlord or any instrument being executed and delivered by Tenant to Landlord) in Landlord, at no additional cost to Landlord. Tenant agrees that it will: (i) not claim tax deductions for depreciation of the Premises; (ii) not treat itself as the "tax owner" on its books or records; or (iii) not treat itself as the owner of the Bond proceeds for tax or accounting purposes.

EASEMENTS

In the event the installation or maintenance of future utility lines in easements causes any damage to the Premises, or any portion thereof, including pavement, curbs and sidewalks, Landlord shall repair the same, or cause the same to be repaired, at Landlord's expense.

OPERATION OF PROJECT

General. Upon Completion of the Improvements, Tenant will deliver possession of the Improvements to the University pursuant to the Space Lease, and will perform its obligations thereunder.

Standards of Operation. Tenant will perform its obligations under the Sub Ground Lease in a manner which demonstrates managerial skill, knowledge, judgment, and practice which is standard for the management of comparable University clinical or research facilities which are maintained in First Class Condition.

ASSIGNMENT OF LEASE

Assignment. Except for the lease of the Improvements to the University pursuant to the Space Lease and the provisions of the Base Rent Assignment Agreement, Tenant will not have the right to assign or transfer Tenant's Interest or any portion thereof or any right or privilege appurtenant thereto, or to sublease the Premises or any

portion thereof, without the prior written consent of Landlord, which consent will not be unreasonably withheld, conditioned or delayed, but which consent may be subject to any conditions reasonably required by Landlord to protect Landlord's economic and programmatic interests in the Sub Ground Lease, the Space Lease and/or the Improvements. Any attempt to assign without Landlord's consent shall be voidable by Landlord and, at Landlord's election, shall constitute an Event of Default under the Sub Ground Lease. The consent by Landlord to any transfer, hypothecation, assignment or subleasing will not constitute a waiver of the necessity for such consent to any subsequent assignment, transfer, hypothecation or subleasing.

Certain Transfers. A sale of all or any portion of Tenant's Interest, and the transfer, assignment or hypothecation of any interest in Tenant, will each be deemed an assignment under the Sub Ground Lease. However, Tenant may, without the need for Landlord's consent, make Permitted Transfers; provided, that any transfer or assignment of the entirety of Tenant's Interest to a Permitted Transferee shall satisfy all of the following conditions: (a) at least thirty (30) days before the assignment or transfer, Landlord receives written notice of such assignment or transfer (as well as any documents or information reasonably requested by Landlord regarding such assignment or transferee or the assignee or transferee) from Tenant (unless such prior notice is prohibited by applicable Law, in which event such notice shall be provided by Tenant as soon as legally permissible), (b) the assignment or transfer is not a subterfuge by Tenant to avoid its obligations hereunder; (c) if the transfer is an assignment, the Permitted Transferee assumes in writing all of Tenant's obligations hereunder; (d) the Permitted Transferee is creditworthy to Landlord's reasonable satisfaction and has a tangible net worth (excluding good will), as evidenced by financial statements delivered to Landlord and certified by an independent certified public accountant in accordance with generally accepted accounting principles that are consistently applied ("Net Worth"), at least equal to Landlord's Net Worth either (x) immediately before the date of such transfer or (y) as of the date of this Sublease, whichever is greater; (e) Tenant shall not be relieved or released from any of its duties, liabilities or obligations hereunder, by reason of such Permitted Transfer; (f) Tenant obtains the written consent of the Trustee; (g) the transferee enters into the Base Rent Assignment Agreement; and (h) if the transfer involves an affiliate of Tenant, Tenant provides a non-consolidation opinion; and (i) Tenant simultaneously transfers its interest as landlord under the Space Lease to the Permitted Transferee.

INSURANCE

Tenant's Insurance. Tenant shall, at all times during the Term of the Sub Ground Lease, keep and maintain, or cause to be kept and maintained insurance in connection with the Sub Ground Lease as follows:

- (a) Commercial Form General Liability Insurance (contractual liability included) with minimum limits as follows:
 - (i) Each Occurrence \$3,000,000
 - (ii) Products/Completed Operations Aggregate \$3,000,000
 - (iii) Personal and Advertising Injury \$3,000,000
 - (iv) General Aggregate \$5,000,000

If the above insurance is written on a claims-made form, it shall continue for three (3) years following termination of the Sub Ground Lease. The insurance will have a retroactive date of placement prior to or coinciding with the Effective Date.

- (b) Business Automobile Liability Insurance for owned, scheduled, non owned, or hired automobiles with a combined single limit of not less than \$1,000,000 per occurrence.

The coverages referred to in (a) and (b) above shall include Landlord and University as an additional insured. Tenant, upon the execution of the Sub Ground Lease, will furnish Landlord and University with certificates of insurance evidencing compliance with all requirements, along with original endorsements evidencing the Landlord's and University's additional insured status. The certificates will state that the insurers will endeavor to provide for

thirty (30) days (ten (10) days for non-payment of premium) advance written notice to Landlord and University of any cancellation of any of the above insurance coverages. The coverages required under the Sub Ground Lease will not limit the liability of Tenant.

Waiver of Subrogation Rights. Landlord and Tenant each waives any right of recovery against the other due to loss of or damage to the property of either Landlord or Tenant to the extent such loss of or damage to property arises out of the acts of God or any other perils whether or not such perils have been insured, self insured or non insured. Tenant will cause its insurance policies carried under the Sub Ground Lease to contain, or be endorsed with, a provision by which the insurer shall waive its right of subrogation against the Landlord in accordance with the Sub Ground Lease.

Non-Contributing. All insurance required to be carried under the Sub Ground Lease will be primary and non-contributing with any insurance carried by Landlord and any of the other named or additional insureds under said policies.

Settlement of Claims. The consent and approval of Landlord will be required to any proposed settlement, adjustment or compromise of any insurance claim.

DAMAGE AND DESTRUCTION

Should the Premises be damaged or destroyed, in whole or in part, by fire, flood, earthquake, windstorm, the elements, casualty, accident, war, riot, public disorder, acts authorized or unauthorized by the government or any other cause or happening (each a "Casualty"), Tenant will give Landlord prompt notice thereof, and the Parties agree as follows:

Development Agreement. Prior to the Completion of the Improvements in accordance with the Development Agreement, in the event of a Casualty, the Casualty Assignment Right shall not be applicable, and Tenant's rights and obligations will be governed by the terms and conditions of the Development Agreement.

Restoration; Termination. After Completion of the Improvements in accordance with the Development Agreement, Tenant will diligently and with commercially reasonable promptness repair the Premises to the extent required under the Space Lease, and subject to the terms thereof. If the Casualty Assignment occurs under the Space Lease as a result of a Casualty, then: (i) if Tenant's Interest in the Space Lease is being assigned to Landlord pursuant to the Space Lease Assignment Agreement, then the Sub Ground Lease will be terminated as of the effective date of the Space Lease Assignment Agreement, and (ii) if Tenant's Interest in the Space Lease is being assigned to any person or entity other than Landlord pursuant to the Space Lease Assignment Agreement, then Tenant's Interest in the Sub Ground Lease will be assigned to such designee pursuant to an assignment agreement in substantially the same form as the Space Lease Assignment Agreement (the "Ground Lease Assignment Agreement"), and as of the effective date of such assignment, Tenant will have no further rights or obligations under the Sub Ground Lease.

Landlord Cooperation. Landlord will reasonably cooperate with Tenant in the procurement and issuance of all permits, licenses, and approvals necessary to commence and complete such restoration, provided that Landlord shall not be required to incur any cost or expense in doing so.

Waiver of Statutory Provisions. The provisions of the Sub Ground Lease constitute an express agreement between Landlord and Tenant with respect to any casualty to all or any part of the Improvements, and any statute or regulation, including, Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties, and any other statute or regulation, now or hereafter in effect, shall have no application to the Sub Ground Lease or any damage or destruction to all or any part of the Improvements.

CONDEMNATION

General Rights and Obligations. If, during the Term, the Premises, or any portion thereof or interest therein, shall be appropriated, taken or damaged by reason of the exercise of the power of eminent domain by any entity except the University, whether by condemnation proceedings or otherwise, or any transfer thereof shall be made in avoidance of an exercise of the power of eminent domain by any entity except the University (all of the foregoing being hereinafter referred to as a "Taking"), the rights and obligations of Landlord and Tenant with respect to said Taking shall be as provided in the Sub Ground Lease, and Tenant waives any and all rights it might otherwise have pursuant to Section 1265.130 of The California Code of Civil Procedure.

Termination due to Taking. If the "Taking Assignment" (as defined in the Space Lease) under the Space Lease occurs as a result of a Taking, then (i) if Tenant's Interest in the Space Lease is being assigned to Landlord pursuant to the Space Lease Assignment Agreement, then the Sub Ground Lease will be terminated as of the effective date of the Space Lease Assignment Agreement, and (ii) if Tenant's Interest in the Space Lease is being assigned to Landlord's designee pursuant to the Space Lease Assignment Agreement, then Tenant's Interest in the Sub Ground Lease will be assigned to such designee pursuant to the Ground Lease Assignment Agreement, and as of the effective date of such assignment, Tenant will have no further rights or obligations under the Sub Ground Lease. It is understood and acknowledged by the parties that the University is entitled to the entire award pursuant to the terms of the Space Lease, and Landlord will assign to the University any and all right, title and interest Landlord may have in such award and will take such actions as may be required to effectuate such assignment.

Taking Without Termination. In the event of any Taking which does not result in the termination of the Sub Ground Lease in accordance with the foregoing, then: (i) Landlord will not be entitled to any part of the award as damages or otherwise for such condemnation and Tenant is to receive the full amount of such award, and (ii) Tenant will commence all work required to restore the Improvements if required under the Space Lease.

EVENTS OF DEFAULT AND REMEDIES

Events of Default Defined. The following will be "Events of Default" under the Sub Ground Lease, and the terms "Event of Default" or "Default" will mean, whenever they are used in the Sub Ground Lease, any one or more of the following events:

(a) Tenant actively prevents the University from paying Space Lease Base Rent directly to the Trustee pursuant to the Base Rent Assignment Agreement or fails to pay any Additional Ground Rent at the times specified in the Sub Ground Lease and such failure shall continue for fifteen (15) days after written notice thereof from Landlord.

(b) Tenant fails to perform or cause to be performed any other term, covenant, condition, or provision under the Sub Ground Lease, other than as referred to in (a) above, and to correct such failure within thirty (30) days after written notice specifying such failure is given to Tenant by Landlord. In the case of any such failure that cannot with due diligence be corrected within such thirty (30) day period but can be wholly corrected within a period of time not materially detrimental to the rights of Landlord, it shall not constitute an Event of Default if corrective action is instituted by Tenant within the applicable period and diligently pursued until the failure is corrected.

(c) Tenant is adjudicated as bankrupt.

(d) A permanent receiver shall be appointed for Tenant's Interest in the Premises and such receiver shall not be removed within ninety (90) days after notice from Landlord to Tenant to obtain such removal.

(e) Tenant voluntarily takes advantage of any debtor relief proceedings under any present or future law whereby the Ground Rent or any part thereof shall be reduced or payment thereof deferred or shall become subject to any such involuntary proceedings and said involuntary proceedings shall not be dismissed within ninety (90) days after notice from Landlord to Tenant to obtain such dismissal.

(f) Tenant makes a general assignment for benefit of creditors.

(g) The Premises or Tenant's Interest therein will be levied upon or attached under process against Tenant, and the same will not be satisfied or dissolved within ninety (90) days after notice from Landlord to Tenant to obtain satisfaction or dissolution thereof.

(h) Tenant is in default under the Development Agreement beyond applicable notice and cure periods.

(i) Tenant is in default under the Space Lease beyond applicable notice and cure periods.

(j) Any other event that is expressly stated to be an Event of Default elsewhere in the Sub Ground Lease.

Remedies. Upon the occurrence of an Event of Default, Landlord may pursue only those remedies expressly set forth in the Sub Ground Lease (and listed below). Landlord waives other remedies available to it under Applicable Law, the Parties agreeing that the limited remedies provided in the Sub Ground Lease are a material inducement to Tenant entering into the transactions contemplated by the Sub Ground Lease, and absent such limited remedies Tenant would not have entered into this Sub Ground Lease; provided during the term of the Development Agreement such remedies shall be limited to the remedies set forth in the Development Agreement:

(a) Terminate the Sub Ground Lease, and thereafter, without legal process, and without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession and control of the Premises to the complete exclusion of Tenant, and upon thirty (30) days notice, cause Tenant to assign its interest in the Space Lease (other than its interest in the Space Lease Base Rent, which has been absolutely assigned to the Trustee in accordance with the Base Rent Assignment Agreement) to Landlord, or its designee (if applicable), pursuant to the Space Lease Assignment Agreement.

(b) Landlord will have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate the Developer Ground Lease on account of any Event of Default by Tenant, Landlord may, from time to time, without terminating the Sub Ground Lease, enforce all of its rights and remedies under the Sub Ground Lease, including the right to recover all rent as it becomes due.

(c) Landlord may, but shall not be obligated to, make any such payment or perform or otherwise cure any such obligation, provision, covenant or condition on Tenant's part to be observed or performed (and may enter the Premises for such purposes), and recover from Tenant all reasonable costs expended by Landlord in connection with such efforts, plus any damages recoverable under Applicable Laws.

No Waiver. No waiver by Landlord of any violation or breach by Tenant of any of the terms, provisions and covenants contained in the Sub Ground Lease will be deemed or construed to constitute a waiver of any other or later violation or breach by Tenant of the same or any other of the terms, provisions, and covenants contained in the Sub Ground Lease. Forbearance by Landlord in enforcement of one or more of the remedies provided in the Sub Ground Lease upon a default by Tenant will not be deemed or construed to constitute a waiver of such default. The acceptance of any Ground Rent under the Sub Ground Lease by Landlord following the occurrence of any default, whether or not known to Landlord, will not be deemed a waiver of any such default, except only a default in the payment of the Ground Rent so accepted.

Landlord Default. Landlord will not be in default under the Sub Ground Lease unless Landlord fails to perform any of its obligations within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant to Landlord specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. Any damages or judgments arising out of Landlord's

default of its obligations under the Sub Ground Lease will be satisfied only out of Landlord's interest and estate in the Premises, and Landlord will have no personal liability beyond such interest and estate with respect to such damages or judgments.

Assigned Agreements - Landlord May Perform. Tenant agrees that in the event that the University, pursuant to the Development Agreement, is entitled to exercise its remedies with respect to a Tenant default under any of the Assigned Agreements (beyond applicable notice and cure periods), then Landlord may, but shall not be obligated, to exercise those such remedies (subject to the University's prior written consent) in concert with, or on behalf of, the University, and will be entitled to take an assignment of all or a portion of the University's rights under the Development Agreement if elected by the Landlord and the University, without the need for Tenant's further consent.

EXPIRATION OR TERMINATION

Extinguishment of Tenant's Rights. Upon the expiration or earlier termination of the Sub Ground Lease from any cause, all rights and interests of Tenant, and all persons whomsoever claiming by, through or under Tenant, will immediately cease and terminate, excluding only the Space Lease and the University's leasehold rights thereunder, and the rights of any sublessees, tenants or other occupants under the Space Lease, and the Premises will thence forward constitute and belong to and be the absolute property of Landlord or Landlord's successors and assigns, without further act or conveyance, and without liability to make such compensation to Tenant or to anyone whomsoever, and free and discharged from all and every Lien and claim of any character created or attempted to be created by Tenant at any time. Tenant agrees, at the termination of the Sub Ground Lease, to surrender unto Landlord, the Premises, subject to the rights of the University under the Space Lease, and the rights of any sublessees, tenants or other occupants under the Space Lease, with then existing buildings, other structures and improvements constructed and located thereon and therein, in its then as is condition.

SUBMISSION OF MATTERS TO LANDLORD FOR APPROVAL

Any matter which must be submitted to and consented to or approved in writing by Landlord or any matter which must be submitted to Landlord which may become effective if not denied by Landlord, as required under the Sub Ground Lease, shall be submitted to Landlord in accordance with the Sub Ground Lease. Any review by Landlord of any matter submitted to Landlord is for Landlord's own convenience and purpose only. By undertaking such review, Landlord does not obtain or have any liability to Tenant or any other person, including the insurers and lenders of Tenant.

HOLDING OVER BY TENANT

Tenant shall not use or remain in possession of the Premises after the expiration or earlier termination of the Developer Ground Lease. Any holding over, or continued use or occupancy by Tenant after the termination of the Sub Ground Lease, without the written consent of Landlord, shall not constitute a tenant-at-will interest on behalf of Tenant, but Tenant shall become a Tenant-at-sufferance and liable for Ground Rent and all other expenses, obligations and payments in effect for the immediately preceding year of the term of the Sub Ground Lease, as well as any damages Landlord may be entitled to under Applicable Laws. There shall be no renewal whatsoever of the Sub Ground Lease by operation of law. However, if the University is in possession of the Premises under the Space Lease, then Tenant shall not be responsible for any such damages.

MISCELLANEOUS

No Waiver of Rights by Landlord. No failure of Landlord to exercise any power given Landlord under the Sub Ground Lease or to insist upon strict compliance by Tenant with its undertakings, duties and obligations under the Sub Ground Lease, and no custom or practice of the Parties at variance with the provisions of the Sub Ground Lease will constitute a waiver of Landlord's right to demand exact compliance with the provisions contained in the Sub Ground Lease.

Provisions are Binding Upon Assigns and are Real Covenants. Each of the provisions of the Sub Ground Lease will apply to, extend to, be binding upon and inure to the benefit or detriment of not only the Parties, but also the legal representatives, successors and permitted assigns of Landlord and Tenant to the Sub Ground Lease, and will be deemed and treated as real covenants running with the Leased Land during the term of the Sub Ground Lease. The Parties further acknowledge and agree that the Trustee, the owners of the Bonds, the University, and their respective successors and permitted assigns, will be deemed third party beneficiaries under the Sub Ground Lease. Whenever a reference to the parties hereto is made, such reference shall be deemed to include the legal representatives, successors and permitted assigns of said Party, the same as if in each case expressly stated.

Applicable Law and Court Proceedings. The Sub Ground Lease will be governed, construed, performed and enforced in accordance with the laws of the State of California (excluding principles of conflict of law). Any suit, action or proceeding against any party arising out of or relating to Sub Ground Lease, any transaction contemplated thereby, or any judgment entered by any court in respect of any thereof may be brought in Superior Court located in the City and County of San Francisco, California and each party submits to the nonexclusive jurisdiction of such court for the purpose of any such suit, action or proceeding.

Subordination. Notwithstanding anything else contained in the Sub Ground Lease, Landlord agrees that the financing of the acquisition, construction, and furnishing of the Project will directly benefit Landlord's operations and Landlord agrees that its interest in and to the rents, revenues, issues and profits relating to the operation of the Improvements, including all Net Proceeds and reserve funds, as well as any and all rights to any and all contracts, agreements and other instruments in connection with the design, acquisition, construction, equipping, installation and operation of the Improvements, including all Assigned Agreements shall be junior and subordinate to the interest, if any, of the Trustee in any such Assigned Agreements as granted or provided in any of the Bond Documents. Landlord agrees to cause the University to agree, pursuant to the Master Ground Lease, not to disturb the Tenant's rights to possession of the Leased Land and the Improvements pursuant to the Sub Ground Lease in the event of a termination of the Landlord's interest in the Master Ground Lease due to a default by Landlord under the Sub Ground Lease, so long as (i) such default by Landlord was not caused by Tenant's failure to perform its obligations under the Sub Ground Lease, (ii) an Event of Default by Tenant under the Sub Ground Lease is not then continuing, and (iii) Tenant executes any documents reasonably requested by the University in connection therewith, and Tenant agrees to attorn to the University as a direct tenant under the Sub Ground Lease in such event, such agreement to attorn self operable and without the need for further documentation.

Preservation of Tax Exemption. Landlord and Tenant each agree to not take any action with respect to the Improvements that would adversely affect either the exclusion of the interest payable on the Bonds from gross income for Federal income tax purposes, or would otherwise result in a breach of any representations, conditions, or covenants of Tenant or Landlord as set forth in the Bond Documents.

Continuing Disclosure. During the Term Tenant will provide such information about the Premises and the performance of its obligations under the Sub Ground Lease as may be necessary for the Landlord and University to comply with any applicable requirements of any continuing disclosure agreement entered into pursuant to SEC Rule 15c2-12.

Tax Covenants. Tenant agrees that it will: (i) not claim tax deductions for depreciation of the Premises; (ii) not treat itself as the "tax owner" of the Leased land or Project on its books or records; or (iii) not treat itself as the owner of the Bond proceeds for tax or accounting purposes. Tenant covenants that it will not take any action or fail to take any action, if such action or the failure to take such action would, in the opinion of nationally recognized bond counsel, adversely affect either the exclusion of the interest payable on the Bonds from gross income for Federal income tax purposes, or the status of the Bonds as applicable.

Payments for Tenant by Landlord. If Tenant fails to procure or cause to be procured the insurance required by Landlord under the Sub Ground Lease or fails to pay any insurance premium, Taxes, or any other sum in the Sub Ground Lease required to be paid by Tenant (other than Ground Rent), Landlord may, after expiration of the applicable cure period, if any, procure on behalf of Tenant any such insurance, and pay on behalf of Tenant any such payment or payments as may be necessary, in addition to and without prejudicing any other remedies of Landlord under the Sub Ground Lease. Any sum(s) so paid or expended by Landlord on behalf of Tenant shall be deemed rental under the Sub Ground Lease, and will immediately be reimbursed and paid by Tenant to Landlord within

fifteen (15) days after demand by Landlord, plus an administrative fee of ten percent (10%) to compensate Landlord for its administrative costs incurred in taking such actions and collecting such sums from Tenant.

Transfer of Landlord's Interest. Tenant acknowledges that subject to the provisions of the Master Ground Lease, Landlord has the right, at any time with notice to Tenant, to transfer all or any portion of its interest in the Leased Land, Improvements, and/or in the Sub Ground Lease, provided that (i) any assignee assumes in writing the obligations of Landlord under the Sub Ground Lease first arising or accruing after the date of such transfer, and (ii) any such transfer shall not impair or prejudice the rights of Tenant under the Sub Ground Lease or Space Lease. Tenant agrees that in the event of any such transfer, Landlord will automatically be released from all liability under the Sub Ground Lease first arising or accruing after the date of such transfer and Tenant agrees to look solely to such transferee for the performance of Landlord's obligations under the Sub Ground Lease after the date of transfer. The liability of any transferee of Landlord will be limited to the interest of such transferee in the Premises and such transferee shall be without personal liability under the Sub Ground Lease, and Tenant expressly waives and releases such personal liability on behalf of itself and all Persons claiming by, through or under Tenant. Tenant further acknowledges that Landlord may assign its interest in the Sub Ground Lease to the Trustee and any other mortgage lender as additional security and agrees that such an assignment shall not release Landlord from its obligations under the Sub Ground Lease and that Tenant shall continue to look to Landlord for the performance of its obligations under the Sub Ground Lease.

SPACE LEASE

DEFINITIONS

The following terms have the indicated definitions in the Space Lease.

"Actual Base Year Operating Expenses" means the actual Operating Expenses incurred or accrued by Landlord during the Base Year.

"ADA" means the Americans with Disabilities Act.

"ADD" means the Approved Design Documents (as defined in the Development Agreement).

"Additional Rent" means Tenant shall pay to Landlord as additional rent the initial annual sum of approximately Four Million Two Hundred Twenty Six Thousand Two Hundred and No/100 Dollars (\$4,226,200.00), as described in the section below entitled "Additional Rent and Other Rent".

"Additional Rent Commencement Date" means the Substantial Completion Date.

"Affiliate" (and the co-relative terms "Affiliation" and "Affiliated with") means, as to any Person, any other Person that, directly or indirectly, Controls, is Controlled by, or is under common Control with such Person.

"Alteration Notice" means the written notice to be provided by Tenant to Landlord at least fifteen (15) days prior to commencement of Alterations, such notice to describe the Alterations in reasonable detail.

"Alterations" means any improvements, alterations or modifications to the Premises.

"Bankruptcy Code" shall mean Title 11 of the United States Code and any other federal, state or foreign bankruptcy, insolvency, rehabilitation, reorganization, liquidation or similar laws, now or hereafter in effect.

"Base Rent" means the monthly rent due under the Space Lease that is related to the Bonds and is payable by University directly to the Trustee as assignee of Landlord.

"Base Rent Assignment Agreement" means that certain Base Rent Assignment Agreement dated as of December 14, 2017.

“Base Rent Commencement Date” means May 1, 2020.

“Base Rent Payment Date” means the Base Rent Commencement Date and thereafter the first day of each month of the Lease Term until the Bonds are paid in full in accordance with the Indenture (or provision for the payment thereof shall have been made pursuant to the Indenture).

“Base Year” means the first Lease Year.

“Bond Administrative Charges” means the administrative costs and other similar expenses that may from time to time be required to be paid in connection with the Bonds, including all expenses, compensation and indemnification of the Trustee under the Indenture, fees of accountants, fees of attorneys, litigation costs, insurance premiums and all other necessary costs of the Issuer and the Trustee, or charges required to be paid by them in order to comply with the terms of the Loan Agreement, the Indenture, or the Bonds.

“Bond Issuance Date” means the date the Bonds are issued pursuant to the Indenture.

“Bonds” means those certain Bonds issued by CFIA pursuant to the Indenture.

“Building” means the facility constructed on the Site.

“Building Systems” means and includes the roofs of all improvements located at the Premises, all curtain walls serving the Building and/or the Premises, and all electrical, mechanical, plumbing, storm and sanitary sewer, heating, ventilation and air conditioning (“HVAC”), vertical transportation (including elevators), and fire and life safety systems and equipment which serve the Building and/or the Premises, including, without limitation, any rooftop package, HVAC units, distribution lines and internal venting systems and all utility meters (except to the extent such utility meters are owned and maintained by public utilities), and all other systems and equipment necessary for the proper functioning of the Building and/or the Premises.

“Business Day” means any day other than (i) a Saturday or a Sunday, (ii) a day on which commercial banks in San Francisco, California or where the Trustee is located are authorized or obligated by law, government decree or executive order to be closed or (iii) a day observed as a holiday by the State of California or the Federal government.

“Calendar Year” means each twelve (12) month period from January 1 through December 31 during the Lease Term.

“Capital Account” means an interest bearing account mutually agreed upon by Landlord and Tenant from time to time.

“Capital Account Payment” means the payment to be paid by Tenant to Landlord in the annual sum of initially One Dollar (\$1.00) per square foot area of the Premises, subject to adjustment from time to time.

“Capital Expense Work” means any one (1) particular repair, maintenance, or improvement event required to be performed by Landlord pursuant to the Space Lease to the extent such expense would be generally categorized as a “capital expense” in accordance with generally accepted industry standard real estate accounting and management practices for comparable facilities in San Francisco; provided Capital Expense Work shall not include (A) any repair or restoration work required due to Casualty or Taking, (B) any work that is covered by a warranty given by Landlord under either the Space Lease or the Development Agreement, or under any Required Warranties, (C) any improvements, modifications or additions to the Premises required for compliance with Laws to the extent triggered by Tenant’s Alterations or change in use of the Premises, (D) any work required due to the recklessness or willful misconduct of Landlord or its employees, agents, contractors or subcontractors (of any tier), including Landlord’s failure to properly repair and maintain the Premises in accordance with the Space Lease, (E) any work required due to the negligent, reckless, or willful actions of Tenant or its employees, agents, contractors, including Tenant’s failure to properly repair and maintain the Premises in accordance with the Space Lease, or (F) any

improvements, modifications, or additions to the Premises caused by Tenant's use of equipment in excess of manufacturer's specifications

"Casualty" means the damage or destruction of the Premises, in whole or in part, by fire, flood, earthquake, windstorm, the elements, casualty, accident, war, riot, public disorder, acts authorized or unauthorized by any Governmental Authority, or any other cause or happening.

"Casualty Assignment" means the assignment of Landlord's interest in the Space Lease (other than its interests assigned pursuant to the Base Rent Assignment Agreement) to CFIA or its designee.

"CFIA" means Campus Facilities Improvement Association, a California non-profit corporation.

"City" means the City and County of San Francisco.

"Comparison Year" means initially, the twelve (12) month period following the Base Year; provided if the Base Year does not end on December 31, then at any time following the first Comparison Year, Landlord shall make the appropriate adjustments and prorations required to cause each subsequent Comparison Year to be a calendar year.

"Consumer Price Index" means the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, San Francisco/Oakland/San Jose, California Average, subgroup "All Items" (1982-84=100). If at any time during the Term said index is terminated or does not have the format recited above, the Parties shall, by mutual agreement, select a comparable official index that may be published by the Bureau of Labor Statistics or a successor or similar governmental agency as may then exist or be most nearly equivalent thereto.

"Control" (and the co-relative terms "Controlling," "Controlled by," and "under common Control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of outstanding securities, equity, or other beneficial ownership interests, by contract or otherwise.

"Current Dollars" means a dollar amount calculated by multiplying a dollar amount specified in the Space Lease by a fraction, the numerator of which is the Consumer Price Index last published prior to the date upon which such amount is calculated and the denominator of which is the Consumer Price Index last published prior to the Effective Date.

"Default Rate" means any payment of Base Rent not paid by Tenant on the date due shall bear interest at the rate.

"Developer Ground Lease" means that certain Sub Ground Lease by and between Landlord and CFIA.

"Development Agreement" means that certain Lease Disposition and Development Agreement by and among Landlord, CFIA and Tenant.

"Disbursement Agreement" means that certain Disbursement Agreement among CFIA, Landlord and Trustee of even date herewith.

"Effective Date" December 14, 2017.

"Emergency" means an event or condition, which threatens the safety, and/or well-being of the occupants of the Premises, or which if left uncorrected, uncured or unaddressed, would prevent Tenant from continuing ongoing use or operations.

"Estimated Base Year Operating Expenses" means an aggregate amount equal to Twenty-Four and Eighty-Six Hundredths Dollars (\$24.86) per square foot area of the Premises, as set forth on the chart attached to the Space

Lease as Exhibit E (which amount shall be treated as an aggregate amount and not as an amount divided into separate line items); provided to the extent that due to an Extension (defined in the Development Agreement), this amount shall be increased by Landlord's actual increased Operating Expenses, so long as Landlord is able to reasonably demonstrate that its actual Operating Expenses incurred increased as a result of such Extension.

"Excluded Environmental Obligations" means that Landlord shall comply with all applicable Laws concerning the (i) obligations of Landlord under the Development Agreement with respect to the Landlord's Initial Environmental Work and (ii) use, storage, handling or discharge of any Hazardous Materials (A) generated or used by Landlord in the course of its construction, operations, maintenance, management and other activities at the Premises during the Lease Term, or (B) otherwise brought onto the Premises by Landlord during the Lease Term.

"First Class Condition" shall mean a condition comparable to other "Class A" clinical and administrative buildings of comparable age and condition in the Mission Bay sub-market area.

"Governmental Authority" means any and all entities, courts, boards, agencies, bureaus, commissions, offices, divisions, subdivisions, departments, bodies or authorities of any nature whatsoever of any governmental unit (Federal, state, county, city or otherwise) whether now or hereafter in existence.

"Hazardous Materials" means (i) any asbestos and asbestos containing materials whether or not such materials are part of the structure of any existing improvements on the Premises, any improvements to be constructed on the Premises by or on behalf of Tenant, or are naturally occurring substances on, in or about the Premises; (ii) any oil and petroleum based derivative, including crude oil or any fraction; (iii) natural gas or natural gas liquids; (iv) lead containing materials; (v) substances designated as hazardous or toxic under the Resource Conservation and Recovery Act, 42 U.S.C. §6901, et seq., the Federal Water Pollution Control Act, 33 U.S.C. §1257, et seq., the Clean Air Act, 42 U.S.C. §2001, et seq., or the Comprehensive Environmental Response Compensation and Liability Act of 1980, 42 U.S.C. §9601, et seq., or any other Federal or State law or regulation now or in the future applicable to the Premises, Building or Site, The National Institute of Health, CDC and FDA rules and guidelines; and (vi) any substance which after release into the environment and upon exposure, ingestion, inhalation or assimilation, either directly from the environment or directly by ingestion through food chains, will or may reasonably be anticipated to cause death, disease, behavior abnormalities, cancer and/or genetic abnormalities.

"Indenture" means that certain Indenture between the Issuer and the Trustee with respect to the Bonds, as the same may be amended and/or supplemented from time to time in accordance with the provisions thereof.

"Issuer" means California Infrastructure and Economic Development Bank.

"Landlord" means SKS/Prado 2130 Third, LLC, a Delaware limited liability company.

"Landlord Default" has the meaning ascribed thereto in the section below entitled "Default by Landlord".

"Landlord Default Assignment Right" means the right of Tenant to require that Landlord assign its interest in the Space Lease to CFIA or its designee.

"Landlord's Initial Environmental Work" shall mean the Developer Assumed Hazardous Materials Obligations as defined in the Development Agreement.

"Landlord's Work" means Landlord's obligation to develop and construct the Building as more particularly described in the Development Agreement.

"Laws" means all present and future laws, ordinances, rules, codes, regulations, permits, authorizations, orders and requirements, whether or not in the contemplation of the Parties, which may affect or be applicable to the Site or any part of the Site (including any subsurface area, use of the Site, the Building and the Premises and improvements on or affixed to the Site), including all consents or approvals required to be obtained from, and all rules and regulations of, and all building and zoning laws of, all federal, state, county, local and municipal Governmental Authorities, board of officers, any national or local board of fire underwriters, or any other body or

bodies exercising similar functions, having or acquiring jurisdiction over the Site or the Premises, and including, without limitation, policies of the University as may be applicable after the effective date of the Development Agreement.

“Lease Commencement Date” means the date of the commencement of the term of the Space Lease, which is the Bond Issuance Date.

“Lease Expiration Date” means the day that is the last day of the month when the last Base Rent Payment Date occurs.

“Lease Term” means the term of the Space Lease, which shall commence on the Lease Commencement Date and shall expire on the Lease Expiration Date.

“Lease Year” shall mean each twelve (12) month period of the Lease Term starting on the Substantial Completion Date and each anniversary thereof, irrespective of whether the Lease Commencement Date occurs prior to the Substantial Completion Date.

“Legal Compliance Reference Date” means the 2013 code year for Building Code compliance and 2016 code year for ADA compliance.

“Lien” shall mean any lien, mortgage, deed of trust, hypothecation, encumbrance, pledge, collateral assignment, assignment, charge, lease, easement, right of way, license, servitude, right of others or security interest of any kind whatsoever, including any arising under any conditional sale or other title retention agreement.

“Loan Agreement” means that certain Loan Agreement dated December 1, 2017.

“Master Ground Lease” means that certain Master Ground Lease by and between CFIA and the University dated as of even date herewith

“Operating Deficiency” means that if Tenant reasonably believes that the Landlord is materially deficient meeting the standards of operation, maintaining the Premises, otherwise performing under the Space Lease in a manner or to an extent causing a Landlord Default under the Space Lease relating to the maintenance of the Premises.

“Operating Expense Estimate” means a written notice from Landlord to Tenant that sets forth the total estimated Operating Expenses for the upcoming Calendar Year, and Tenant’s estimated monthly payments of Additional Rent for such calendar year provided if the Base Year does not end on December 31st, the first such notice shall set forth the total estimated Operating Expenses and Tenant’s estimated monthly payments of Additional Rent for that portion of the second Lease Year that occurs prior to the start of the subsequent Calendar Year.

“Operating Expenses” means all amounts, costs and expenses reasonably incurred or accrued by Landlord in connection with the maintenance, operation, repair, and management of the Building and Premises, including taxes (except those paid by Tenant pursuant to the Space Lease); costs of insurance maintained by Landlord hereunder; supplies; asset management fees; property management fees; all sums expended in connection with all general maintenance (including costs to maintain the Premises in a First Class Condition); repairs; painting; cleaning, sweeping and janitorial services; maintenance and repair of signs; trash removal; sewage; maintenance and repair of any fire protection systems, elevator systems, lighting systems, storm drainage systems, heating, ventilation and air conditioning systems and other utility and/or mechanical systems; any governmental imposition or surcharge imposed upon Landlord with respect to the Building or Premises or assessed against the Building or Premises; materials; tools; rental paid for maintenance and operating machinery and equipment; service agreements on equipment; maintenance, and repair of the roof (including repair of leaks and resurfacing) and the exterior surfaces of all improvements (including painting); maintenance and repair of structural parts (including repair of leaks and resurfacing) and the exterior surfaces of all improvements (including painting); maintenance and repair of structural parts (including foundation, floor slabs and load bearing walls); window cleaning; elevator or escalator services; materials handling; fees for licenses and permits relating to the Building; the cost of complying with rules,

regulations and orders of governmental authorities; accounting fees; the cost of contesting the validity or applicability of any governmental enactment which may affect Operating Expenses to the extent contest reduces Operating Expenses; and personnel to implement such services (including, without limitation, if Landlord deems necessary, maintenance personnel, and engineers); provided Operating Expenses will not include (i) the Capital Account Payments described in the Space Lease, (ii) the cost of any Capital Expense Work, or (iii) any other costs or expenses expressly excluded from Operating Expenses pursuant to the Space Lease.

“Other Rent” means all other expenses expressly payable by Tenant under the Space Lease, including payments for taxes; costs incurred for those utilities and services to the extent Tenant has elected in writing to have Landlord procure the same; Alteration costs; and Tenant’s Capital Expenses.

“Party” and “Parties” means “Tenant” and, together with Landlord, collectively, the “Parties” and each, individually, a “Party”.

“Permitted Transferee” (a) a corporation or other business entity or person into which Landlord is merged or consolidated; (b) a corporation or other business entity or person to which substantially all of Landlord’s assets are transferred; or (c) a corporation or other business entity or person that Controls, is Controlled by, or is under common Control with Landlord.

“Permitted Transfers” shall mean (a) transfers of shares of stock, membership interests, partnership interests and other interests in the direct or indirect holders of the beneficial interests in Landlord, provided, that following any such transfer, an entity that Controls, is Controlled by, or is under common Control with The Prado Group, Inc., and/or an entity that Controls, is Controlled by, or is under common Control with SKS Partners, LLC shall continue to Control Landlord and (b) transfers to Permitted Transferees.

“Person” means natural persons, firms, joint ventures, associations, trusts, partnerships, corporations, limited liability companies, public bodies and similar entities, whether for profit or non-profit.

“Premises” means that certain improved real property described in Exhibit A of the Space Lease, commonly known as 2130 Third Street, situated in the City and County of San Francisco, State of California, and its appurtenances, and consisting of the Building in its entirety, including all floor areas, roof, and core areas and the Site.

“Reconciliation” means a detailed written accounting based upon an aggregate amount, substantially in the form of the chart attached to the Space Lease as Exhibit E, of the Operating Expenses incurred by Landlord during the Base Year, and each Calendar Year (including any portion of the final Calendar Year of the Lease Term if the Lease Expiration Date is not on December 31st).

“Required Warranties” the warranties to be obtained by Landlord with respect to the Landlord’s Work required by the Development Agreement and described on Exhibit F of the Space Lease.

“Site” means that certain real property commonly known as 2130 Third Street, located in the City and County of San Francisco, State of California described in Exhibit A attached to the Space Lease.

“Space Lease” means that certain Space Lease for the Premises made as of the Effective Date by and between Landlord and Tenant.

“Space Lease Assignment Agreement” means the assignment agreement in the form attached to the Space Lease as Exhibit D.

“Substantial Completion Date” means the date of “Completion” of construction of the Premises as described in the Development Agreement.

“Taking” means the acquisition or condemnation by eminent domain or sale in lieu thereof (regardless of whether such taking is permanent or temporary in nature) of all or a portion of the Premises.

“Taking Assignment” means Landlord’s assignment of Landlord’s interest in the Space Lease (other than its interests assigned pursuant to the Base Rent Assignment Agreement) to CFIA or its designee.

“Tenant” means the Regents of The University of California, a California public corporation.

“Tenant’s Capital Expenses” means that beginning on the first day of the fourteenth (14th) Lease Year through the Lease Expiration Date and to the extent that the funds in the Capital Account are not sufficient to cover all of the costs of any Capital Expense Work, then Tenant shall reimburse Landlord within ten (10) Business Days after written demand, as Other Rent, for the actual reasonable out of pocket costs incurred by Landlord in performing any Capital Expense Work required under the Space Lease.

“Tenant Default” has the meaning ascribed thereto in the section below entitled “Default by Tenant”.

“Tenant Default Assignment Right” means subject to the Base Rent Assignment Agreement and requirements under the Space Lease, Landlord may elect upon a Tenant Default, with written notice to Tenant and CFIA, to assign its rights, interests and obligations in, to and under the Space Lease to CFIA or its designee.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., as trustee.

“UCSF” means University of California at San Francisco.

PREMISES

Landlord leases to Tenant and Tenant leases from Landlord, upon the terms and conditions set forth in the Space Lease, that certain improved real property and its appurtenances, situated in the City and County of San Francisco, State of California, commonly known as 2130 Third Street, and described in Exhibit A of the Space Lease, consisting of the Building in its entirety, including all floor areas, roof, and core areas (collectively, the “Premises”).

TERM

Lease Term. The Lease Term will commence on the Lease Commencement Date and will expire on the Lease Expiration Date. No holding over will be permitted.

RENT

Base Rent. Starting on the base Rent Commencement Date, Tenant will pay the Trustee, on behalf and as assignee of the Landlord pursuant to that certain Base Rent Assignment Agreement (the “Base Rent Assignment Agreement”), Base Rent on each Base Rent Payment Date starting on the Base Rent Commencement Date. All such payments will be fully credited to Tenant’s obligation to pay Base Rent under the Space Lease. The Base Rent payable under the Space Lease will be comprised of separately stated principal and interest components as set forth in the Space Lease, and will be for the payment of all principal and interest payable under the Bonds, until the principal and interest payable under the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture. The Base Rent will be paid in immediately available funds, in lawful money of the United States of America, and deposited in that certain fund held by the Trustee and established pursuant to the Indenture to hold the Base Rent payments made under the Space Lease. The payments of Base Rent will at all times be sufficient to pay the total amount of principal and interest payable under the Bonds on their next succeeding payment date. The obligation of Tenant to make the Base Rent payments set forth above is absolute and unconditional, and until such time as the total Base Rent payable under the Space Lease has been paid in full (or provision for the payment thereof shall have been made pursuant to the Indenture and the Space Lease), the Tenant will not discontinue or suspend any payment of Base Rent, whether or not the Premises or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by set-off or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever. In accordance with the Developer Ground Lease, Landlord acknowledges that the Base Rent paid by

Tenant under the Space Lease will be used to satisfy Landlord's obligation to pay Base Ground Rent (as defined in the Developer Ground Lease) pursuant to the Developer Ground Lease.

Additional Rent and Other Rent; Additional Rent Commencement Date. In addition to the Base Rent, but not until the beginning of the Additional Rent Commencement Date, Tenant shall pay to Landlord as Additional Rent the initial annual sum of approximately Four Million Two Hundred Twenty Six Thousand Two Hundred and No/100 Dollars (\$4,226,200.00) which Additional Rent shall be payable in equal monthly installments of approximately Three Hundred Fifty Two Thousand One Hundred Eighty Three and 33/100 Dollars (\$352,183.33) in advance on or before the first day of each month (the "Monthly Additional Rent"). Following the Base Year, the amount of Additional Rent payable hereunder shall be adjusted as provided below. Additional Rent is inclusive of Operating Expenses only, and the initial Additional Rent set forth above reflects the Estimated Base Year Operating Expenses payable during the first Lease Year. In addition to the foregoing, all other expenses expressly payable by Tenant under the Space Lease, including payments for taxes; costs incurred for utilities and services to the extent Tenant has elected in writing to have Landlord procure the same; Alteration costs; and Tenant's Capital Expenses, will be deemed to be "Other Rent". "Rent" shall mean Base Rent, Additional Rent, Other Rent, and Capital Account Payments, collectively. If the Additional Rent Commencement Date is other than the first day of a calendar month, then the Additional Rent for that month will be prorated on a daily basis, based on a thirty (30) day month. Additional Rent and any Other Rent will be payable to Landlord at the address specified in the Space Lease or at such other address as Landlord may from time to time designate to Tenant in writing.

Operating Expenses. Landlord will deliver an Operating Expense Estimate to Tenant at least thirty (30) days before the start of each Calendar Year, and, if the Base Year does not end on December 31st, at least thirty (30) days before the start of the second Lease Year. At the start of each Calendar Year after the Base Year, and if the Base Year does not end on December 31st, during the portion of the second Lease Year that occurs prior to the start of the subsequent Calendar Year, Tenant's monthly payments of Additional Rent will be adjusted to equal the amounts set forth in the Operating Expense Estimate delivered by Landlord to Tenant. Landlord may adjust Tenant's estimated Additional Rent payments (no more than one (1) time each Calendar Year unless otherwise agreed to by both parties in writing), with delivery of an additional Operating Expense Estimate, such adjustment to be effective as of the next first day of a month that occurs at least thirty (30) days after Tenant's receipt of such supplemental Operating Expense Estimate.

Landlord will deliver a Reconciliation to Tenant within ninety (90) days after the end of the Base Year and each Calendar Year, and within ninety (90) days of the Lease Expiration Date if the Lease Expiration Date is not on December 31st. With regard to any Reconciliation after the Base Year Reconciliation, if the estimated Additional Rent paid by Tenant is less than the actual Additional Rent payable for such Calendar Year, then Tenant shall pay the difference to Landlord within thirty (30) days after receipt of such Reconciliation, and if the estimated Additional Rent paid by Tenant is more than the actual Additional Rent payable for such Calendar Year, Landlord will refund such overpayment of Additional Rent at the time it delivers such Reconciliation, such obligations to survive the termination of the Space Lease.

With regard to the Reconciliation for the Base Year only, (i) if the Actual Base Year Operating Expenses are less than the Estimated Base Year Operating Expenses, then Landlord will refund the difference to Tenant at the time it delivers the Reconciliation for the Base Year, (ii) if the Actual Base Year Operating Expenses are greater than the Estimated Base Year Operating Expenses but not greater than \$27.35 per square foot area of the Premises (the "Maximum Tenant Base Year Reconciliation"), then Tenant shall pay the difference between the Actual Base Year Operating Expenses and the Estimated Base Year Operating Expenses to Landlord within thirty (30) days after receipt of such Reconciliation, and (iii) if the Actual Base Year Operating Expenses are greater than the Maximum Tenant Base Year Reconciliation, Tenant shall be responsible for reimbursing Landlord up to the Maximum Tenant Base Year Reconciliation, along with any amounts in excess of the Maximum Tenant Base Year Reconciliation to the extent such excess is due to: (A) any increase in the Landlord's actual cost of maintaining insurance pursuant to the Space Lease, (B) any increase in the cost of union labor, (C) any Federal, State or local tax impositions on the Site or Landlord's leasehold interest attributable to the period between the effective date of the Development Agreement and the last day of the Base Year (regardless of when imposed), (D) any licensing and regulatory costs incurred by Landlord due to new Laws enacted, or changes in applicable Laws, between the effective date of the Development Agreement and the last day of the Base Year, including any changes to the ADA and any "green" initiatives of the City, and their application to the use and operation of the Premises, (E) any costs related to changes

in the work rules and/or operating requirements of UCSF or Tenant between the effective date of the Development Agreement and the last day of the Base Year, (F) any costs incurred by Landlord and related to the containment and disposal of Hazardous Materials generated by Tenant's operations in the Premises during the Base Year, (G) any changes in Tenant's use of the Premises during the Base Year for purposes other than the uses described in the ADD, (H) any new insurance coverages (other than the coverages expressly required under the Space Lease) that Landlord is required to obtain during the Base Year as a result of Tenant's request, and/or CFIA's request pursuant to the Developer Ground Lease, and (I) any ongoing monitoring and remediation costs related to Landlord's Initial Environmental Work (collectively, (x) Operating Expenses more than the Actual Base Year Operating Expenses, but less than the Maximum Tenant Base Year Reconciliation, and (y) the additional costs described in subclauses (A) through (I) are referred to herein as the "Allowed Increases"). Tenant shall pay to Landlord the amount of any Allowed Increases within thirty (30) days after its receipt of the Reconciliation for the Base Year and a detailed written notice from Landlord describing the Allowed Increases, along with applicable receipts/invoices. At Tenant's request, Landlord shall meet and confer with Tenant to discuss opportunities for decreasing Operating Expenses, including Actual Base Year Operating Expenses.

Tenant will have the right, upon written notice given to Landlord no later than ninety (90) days after receipt of a Reconciliation, not more often than once in any calendar year, and no later than June 30 of the calendar year preceding, to make an audit of all of Landlord's bills, records, receipts, insurance certificates and policies relating to Operating Expenses for the immediately preceding Lease Year. Upon such written request of Tenant, Landlord will make available to Tenant, during normal business hours, at the location where Landlord's books and records are kept, such information as Tenant reasonably requests. Landlord will cooperate with Tenant in its explanation of all such information. Tenant reserves the right to retain the services of an independent certified public accountant for such audit, which accountant shall not be paid by a contingent or percentage based fee. Tenant will diligently complete any such audit and will deliver to Landlord the written results thereof within fifteen (15) Business Days after Tenant receives the same. If such audit discloses an overpayment by Tenant, Landlord will refund such amount to Tenant within thirty (30) days. If such audit discloses a discrepancy in Tenant's favor in excess of five percent (5%) of the total Operating Expenses, Landlord will reimburse Tenant for the reasonable costs of the audit. If such audit discloses additional amounts due from Tenant, Tenant will pay such amounts within fifteen (15) Business Days of completion of such audit. Should Landlord disagree with the results of Tenant's audit, Landlord and Tenant will refer the matter to a mutually acceptable independent certified public accountant, who shall work in good faith with Landlord and Tenant to resolve the discrepancy. The fees and costs of such independent accountant to which such dispute is referred will be borne by Tenant, provided that if audit discloses a discrepancy in Tenant's favor in excess of five percent (5%), Landlord will be responsible to pay such costs.

Notwithstanding anything in the Space Lease to the contrary, Operating Expenses will expressly exclude: (1) costs related to Capital Expense Work; (2) depreciation or amortization of the Building or its contents or components; (3) legal expenses incurred in connection with the initial construction of the Building; (4) any taxes paid by Tenant pursuant to the Space Lease; (5) except for temporary use, rentals for items which if purchased, rather than rented, would constitute Capital Expense Work; (6) costs incurred in connection with repairing damage to the Premises caused by a Casualty (to the extent of insurance proceeds received by Landlord for the purpose of repairing such damage), or due to a Taking impacting the Premises (to the extent of condemnation proceeds received by Landlord); (7) any costs covered by the express warranties given by Landlord to Tenant, if any, either in the Space Lease or the Development Agreement, or covered by any Required Warranties; (8) costs incurred by Landlord due to a Landlord Default; (9) except as set forth in item (12) below, overhead and profit increment paid to Landlord or to Affiliates of Landlord for goods and/or services in or to the Building to the extent the same exceeds the costs of such goods and/or services rendered by unaffiliated third parties on a competitive basis; (10) Landlord's general corporate overhead and general and administrative expenses; including salaries of officers, executives and partners of Landlord; (11) costs incurred in connection with upgrading the Building to comply with life, fire and safety codes, ordinances, statutes or other Laws that were being enforced and were in effect prior to the Legal Compliance Reference Date, including, without limitation, the ADA, including penalties or damages incurred due to such non-compliance; (12) any property management fee or administrative fee (other than the administrative fee expressly allowed by the Space Lease and other fees expressly set forth therein) in excess of two percent (2%) of the Base Rent plus the Additional Rent payable under the Space Lease, estimated to be approximately Two Hundred Seventy Thousand and No/100 Dollars for the first Lease Year, (13) any costs related to (i) Landlord's Initial Environmental Work, except for any ongoing monitoring and remediation costs related to Landlord's Initial Environmental Work (which shall be included in Operating Expenses), or (ii) Excluded Environmental Obligations; and (14) any reserves.

Capital Account. In addition to Base Rent, Additional Rent, and Other Rent, Tenant shall pay to Landlord the annual sum of the Capital Account Payment in equal monthly installments in advance on or before the first day of each month, to be held by Landlord in to the Capital Account. Commencing at the beginning of the second Lease Year, and on the first day of each Lease Year thereafter, the Capital Account Payment shall be increased by the product of (x) three percent (3.00%) and (y) the Capital Account Payment payable during the immediately preceding Lease Year. The sums in the Capital Account are to be used by the Landlord solely for the purposes of performing Capital Expense Work. Tenant will be entitled to 100% of the funds in the Capital Account (including any interest and monies earned) remaining on the date of the expiration or earlier termination of the Lease Term. The Capital Account will be established, deposited and held in a federally chartered bank, in such interest bearing accounts designated by Tenant, and reasonably approved by Landlord, and the Parties will execute all instruments required to establish and maintain such accounts. All interest earned on the Capital Account shall be added to amounts then on deposit in such deposit account and shall be reported by Tenant for tax purposes. Tenant will have the right to instruct Landlord to adjust or change the designated accounts from time to time during the Lease Term, subject to Landlord's reasonable approval. Tenant will be entitled to an accounting of the funds in the Capital Account (including interest and monies earned) at any time upon written request and Landlord will take such actions as are reasonable required in connection therewith.

PROPERTY TAXES

From and after occupancy by Tenant, the Parties expect the Premises to be exempt from property taxes (including supplemental taxes, special assessments and other ad valorem assessments, transfer taxes, and taxes applied to the improvements, leasehold interest in the Building, or the Site), pursuant to Article XIII, Section 3(d) of the California Constitution, as a result of the University of California's exclusive use thereof. Tenant acknowledges that, in recognition of such exemption, the Landlord has excluded taxes and assessments, including property taxes, from the rental rate and Operating Expenses provided in the Space Lease. Therefore, Tenant will take such actions as are reasonably necessary and appropriate to secure and maintain the said assessment and tax exemption during the period of the Lease Term and Tenant's occupancy of the Premises, and Landlord shall reasonably assist Tenant with such efforts. To the extent Tenant is unable to obtain all such exemptions, it will be responsible for paying any and all such taxes and assessments directly to the proper taxing authority on or before the date due. If Landlord receives any tax statements or related documents it will promptly forward the same to Tenant, in all cases (to the extent possible) in sufficient time for Tenant to pay such taxes and assessments before the date due and so that Tenant may obtain any available early payment discounts.

DELIVERY OF THE PREMISES

Delivery. On the Substantial Completion Date, Landlord will deliver possession of the Premises to Tenant in the condition required by the Development Agreement and the Space Lease. No Additional Rent or Other Rent shall accrue under the Space Lease, nor shall Tenant have any obligation to perform the covenants or observe the conditions contained in the Space Lease until the Premises have been so delivered, except for Tenant's obligation to pay Base Rent. Landlord shall have no obligation to perform the covenants or observe the conditions contained in the Space Lease until the Premises have been so delivered.

USE

Use. Tenant will use the Premises for a research, clinical and educational facility, with related office and other legally permissible uses. Tenant may alter said use to any lawful purpose, upon the written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed.

Compliance With Laws. Landlord represents and warrants to Tenant that, as of the Substantial Completion Date, the Premises and the construction of the Landlord's Work will be in substantial compliance with applicable building, environmental, zoning and land use laws, and other applicable local, State and Federal Laws, regulations and ordinances, to the extent required to allow Tenant to legally use, occupy and operate the Premises as of the Substantial Completion Date for the uses described in the Space Lease.

COMPLIANCE WITH LAWS

Landlord will comply with all Laws (including but not limited to the ADA and all applicable Laws regarding payment of prevailing wage), with respect to the Premises, and shall make any improvements, modifications or additions to the Premises required for compliance. Any reasonable costs incurred by Landlord and associated with compliance after the Legal Compliance Reference Date (including without limitation, the cost of any capital improvements that may be required due to new laws enacted after, or changes in Laws after the Legal Compliance Reference Date) will be subject to reimbursement as Alterations under of the Space Lease. Subject to Landlord's obligations above, Tenant will observe and comply with all Laws, (including orders, rules, requirements, and regulations of a Federal, State or local nature, and of any and all governmental authorities or agencies and of any board of fire underwriters or other similar organization) respecting the manner in which the Premises are or should be used by Tenant and will be responsible for any improvements, modifications or additions to the Premises required for compliance with Laws to the extent triggered by Tenant's Alterations or change in Tenant's use of the Premises. Any costs relating to Tenant's obligations under the foregoing sentence will be paid solely by Tenant and shall not be considered Capital Expense Work.

INSURANCE REQUIREMENTS

Tenant's Insurance. Tenant will satisfy its insurance obligations under the Space Lease through Tenant's program(s) of insurance, which may be comprised of but not limited to self-insurance program(s) that are formal self-funded retention program(s), traditional insurance, alternative risk transfer vehicles, captives or any combination thereof. Tenant will provide to Landlord all documents (including certificates of insurance) that Landlord may reasonably request to evidence that such coverages are in place and satisfy Tenant's insurance obligations under the Space Lease. Landlord and Tenant agree to maintain the Premises in accordance with any loss engineering recommendations made by Tenant's insurance carrier. Tenant, at its sole cost and expense, will insure its activities in connection with the Space Lease and obtain, keep in force and maintain insurance as follows:

(a) General Liability Self-Insurance Program (contractual liability included) with minimum limits as follows:

- (i) Each Occurrence \$3,000,000
- (ii) Products/Completed Operations Aggregate \$3,000,000
- (iii) Personal and Advertising Injury \$3,000,000
- (iv) General Aggregate \$5,000,000

(b) Business Automobile Liability for owned, non owned, or hired automobiles with a combined single limit of not less than \$1,000,000 per occurrence.

(c) Special Form-Property Insurance covering the Building (including all tenant improvements that are part of the Landlord's Work, all other improvements, Alterations and additions to the Premises and all of Tenant's equipment, trade fixtures, inventory, fixtures and other personal property located on or in the Premises) against all risks, in an amount equal to one hundred percent (100%) of the full replacement value of the Building (and all improvements and personal property) to conform with then current codes and the costs of demolition and debris removal, excluding land and the footings, foundations and installations below the basement level, without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance, with a vandalism and malicious mischief endorsement, sprinkler leakage coverage, business interruption coverage for one (1) year, and such other coverages as may be required by CFIA pursuant to the Developer Ground Lease.

(d) Workers' Compensation and Employers Liability as required by California law.

The coverages referred to under subclauses (a), (b) and (c) of above shall include Landlord and CFIA as an additional insured. Tenant, upon the execution of the Space Lease, will furnish Landlord and CFIA with certificates of insurance evidencing compliance with all requirements, evidencing the Landlord's and CFIA's additional insured status. The certificates will state that the insurers will endeavor to provide for thirty (30) days advance written notice to Landlord and CFIA of any cancellation of any of the above insurance coverages. The coverages required in the Space Lease will not limit the liability of Tenant under the Space Lease.

Landlord's Insurance. Landlord, at its sole cost and expense, reimbursable in full as part of Operating Expenses, will insure its activities in connection with the Space Lease and obtain, keep in force and maintain insurance as follows:

(a) Commercial Form General Liability Insurance (contractual liability included) with minimum limits as follows:

- (i) Each Occurrence \$3,000,000
- (ii) Products/Completed Operations Aggregate \$3,000,000
- (iii) Personal and Advertising Injury \$3,000,000
- (iv) General Aggregate \$5,000,000

If the above insurance is written on a claims-made form, it shall continue for three (3) years following termination of the Space Lease. The insurance will have a retroactive date of placement prior to or coinciding with the Lease Commencement Date.

(b) Business Automobile Liability Insurance for owned, scheduled, non owned, or hired automobiles with a combined single limit of not less than \$1,000,000 per occurrence.

(c) Workers' Compensation and Employer's Liability as required by California law.

The coverages referred to under subclauses (a) and (b) of above shall include Tenant and CFIA as an additional insured. Landlord, upon the execution of the Space Lease, will furnish Tenant and CFIA with certificates of insurance evidencing compliance with all requirements, along with original endorsements evidencing the Tenant's and CFIA's additional insured status. The certificates shall state that the insurers will endeavor to provide for thirty (30) days (ten (10) days for non-payment of premium) advance written notice to Tenant and CFIA of any cancellation of any of the above insurance coverages. The coverages required in the Space Lease will not limit the liability of Landlord.

REPAIR AND MAINTENANCE

Landlord and Tenant Obligations. Landlord shall repair and maintain the Premises in First Class Condition; provided that subject to waivers of subrogation under the Space Lease, Tenant shall be solely responsible for (a) repairing any damage caused by the negligent, reckless, or willful actions of Tenant or its employees, agents, contractors, subcontractors (of any tier), invitees, and patients and (b) those utilities and services set forth in the Space Lease unless Tenant has elected in writing to have Landlord procure the same and pays Landlord for such costs as Other Rent. The materials and equipment used and installed by a Party in the course of its maintenance and repair work shall be of substantially equal or better quality than the original materials and equipment. Each Party shall reasonably cooperate with the other Party to help the other perform its obligations, and each Party shall proceed diligently to perform its obligations, including performance as soon as possible in the event of an Emergency.

Standards of Operation. Landlord shall perform its obligations under the Space Lease in a manner that demonstrates managerial and maintenance skill, knowledge, judgment and practice required in order to ensure that

the Premises is operated, repaired, maintained and managed in First Class Condition. Landlord may, at Landlord's discretion, engage consultants, contractors, sub-contractors, and other parties in connection therewith; provided, however, that if Landlord engages a third party property manager, then such property manager shall be required to have experience managing clinical buildings and shall be subject to Tenant's consent, which consent shall not be unreasonably withheld, delayed or condition. Tenant, in agreeing to the terms of the Space Lease, is relying on the expertise, experience and reputation of Landlord to cause the Premises to be maintained in First Class Condition. If Tenant reasonably believes that the Landlord is materially deficient in meeting the standards of operation, maintaining the Premises, or otherwise performing under the Space Lease in a manner or to an extent causing a Landlord Default under the Space Lease relating to the maintenance of the Premises (each of which shall be an "Operating Deficiency"), such Operating Deficiency shall be resolved by the following process:

(a) Tenant shall notify Landlord in writing of the nature and specific circumstances or events causing such Operating Deficiency. Landlord and Tenant shall meet and confer within five (5) Business Days following such notification to confirm the existence of the Operating Deficiency and to agree upon a mutually agreeable cure.

(b) If Landlord agrees that such Operating Deficiency exists, it shall cure, or cause to be cured, the deficiency within fifteen (15) Business Days following the date Landlord and Tenant met and conferred, or such other time period as Landlord and Tenant agree is appropriate, provided that if such Operating Deficiency cannot reasonable be cured within a fifteen (15) Business Day period, Landlord shall not be in breach of this obligation if it starts its curative efforts within such 15- Business Day period and thereafter completes such cure with diligence and in good faith

(c) If Landlord does not agree that such Operating Deficiency exists, or if Tenant believes that Landlord is not pursuing the completion of the cure with all diligence and in good faith, then either party may resolve the dispute in the manner prescribed by the Space Lease to resolve disputes.

Capital Expense Work. As used in the Space Lease, the term "Capital Expense Work" means any one (1) particular repair, maintenance, or improvement event required to be performed by Landlord to the extent such expense would be generally categorized as a "capital expense" in accordance with generally accepted industry standard real estate accounting and management practices for comparable facilities in San Francisco; provided Capital Expense Work shall not include (A) any repair or restoration work required due to Casualty or Taking, (B) any work that is covered by a warranty given by Landlord under either the Space Lease or the Development Agreement, or under any Required Warranties, (C) any improvements, modifications or additions to the Premises required for compliance with Laws to the extent triggered by Tenant's Alterations or change in use of the Premises, (D) any work required due to the recklessness or willful misconduct of Landlord or its employees, agents, contractors or subcontractors (of any tier), including Landlord's failure to properly repair and maintain the Premises in accordance with the Space Lease, (E) any work required due to the negligent, reckless, or willful actions of Tenant or its employees, agents, contractors, including Tenant's failure to properly repair and maintain the Premises in accordance with the Space Lease, or (F) any improvements, modifications, or additions to the Premises caused by Tenant's use of equipment in excess of manufacturer's specifications. Any Capital Expense Work will be initiated by Landlord in Landlord's sole and absolute discretion; provided, that Landlord will be required to obtain Tenant's prior written consent to any proposed Capital Expense Work and shall provide Tenant with at least fifteen (15) Business Days' prior written notice of any proposed Capital Expense Work. Tenant's consent to any proposed Capital Expense Work will not be unreasonably withheld, conditioned or delayed.

ALTERATIONS, MECHANICS' LIENS

Alterations. Without the need for Landlord's consent, Tenant will be allowed to make any improvements, alterations and modifications (collectively "Alterations") to the Premises that it desires so long as such Alterations do not affect the Building's roof, roof membrane, any structural component or any Building Systems or the proper functioning thereof; violate or require a change in any occupancy certificate applicable to the Building or the Premises; trigger a legal requirement which would require that any alteration or improvement be made to the Building or the Premises; or materially and adversely affect access to the Premises or the circulation of traffic or parking at the Premises. All other Alterations shall require Landlord's consent, which consent shall not be unreasonably withheld, delayed, or conditioned. Landlord shall have the right to reasonably object to any proposed

Alterations with written notice to Tenant given within five (5) days after receipt of the Alteration Notice, but only if the Alterations will result in a material increase in Landlord's costs of repairing and maintaining the Building, and only to the extent that Landlord is not able to pass through such cost increase to Tenant as Operating Expenses. In connection with any Alterations performed by Tenant: (i) Landlord will be given at least fifteen (15) days prior written notice of such Alterations in reasonable detail (the "Alteration Notice"), (ii) the Alterations shall be performed in a good and workmanlike manner in accordance with good construction practices and applicable Law and with such permits as are required by applicable Law, (iii) Tenant, at its sole cost, shall construct any improvements or modifications, including capital improvements, that are required to be made to the Premises pursuant to applicable Laws as a result of such Alterations, (iv) such Alterations shall be performed by licensed and bondable contractors and subcontractors selected by Tenant and reasonably approved by Landlord, and (v) Tenant shall deliver to Landlord copies of plans and specifications for such Alterations. Tenant shall insure the Alterations in accordance with the Space Lease. Landlord's approval of any plans, contractor(s) and subcontractor(s) of Tenant shall not release Tenant or any such contractor(s) and/or subcontractor(s) from any liability with respect to such Alterations and will create no liability or responsibility on Landlord's part concerning the completeness of such Alterations or their design sufficiency or compliance with Laws.

Landlord Performance of Alterations. If Tenant desires that Landlord construct the Alterations it will communicate this request to Landlord, and Landlord and Tenant shall meet and confer on the desired Alterations, and after meeting at least three (3) times during a 20-day period after Tenant's request, Landlord shall have the right either to agree or not to agree to construct any such Alterations in Landlord's sole and absolute discretion. Any failure of Landlord to respond to any such request by Tenant shall be deemed to be Landlord's election not to construct such Alterations. If Landlord agrees to construct any Alterations, construction of Alterations by Landlord at Tenant's request shall further be at Tenant's sole cost and on such terms and conditions as Landlord and Tenant may agree, including whether to cause construction by a design-bid/permit-build approach, or a design-build approach, and the terms of any warranty of Landlord's construction of the Alterations. Landlord and Tenant will duly execute and deliver a work letter agreement for construction of the Alterations reflecting the agreement of Tenant and Landlord.

Mechanic's Liens. The Parties will keep the Premises free from any Liens arising out of any work performed by, materials furnished to, or obligations incurred by the Parties.

ASSIGNMENT AND SUBLETTING

Landlord Transfer. Other than the Base Rent Assignment Agreement, Landlord may not transfer, assign, or hypothecate its interest in the Space Lease and/or the rents payable thereunder without Tenant's and CFIA's prior written consent in each instance; provided that Tenant's consent shall not be unreasonably withheld, conditioned or delayed. The Parties agree that it shall not be unreasonable for Tenant to withhold consent if the proposed transferee or assignee does not, either directly or through an affiliate or property manager, have experience managing at least 500,000 square feet of office space. Notwithstanding anything to the contrary contained herein, Landlord may without the need for Tenant's consent, make Permitted Transfers; provided, that any transfer or assignment of the entirety of Landlord's interest in the Space Lease to a Permitted Transferee shall satisfy all of the following conditions: (a) at least thirty (30) days before the assignment or transfer, Tenant receives written notice of such assignment or transfer (as well as any documents or information reasonably requested by Tenant regarding such assignment or transferee or the assignee or transferee) from Landlord (unless such prior notice is prohibited by applicable Law, in which event such notice shall be provided by Landlord as soon as legally permissible), (b) the assignment or transfer is not a subterfuge by Landlord to avoid its obligations hereunder; (c) if the transfer is an assignment, the Permitted Transferee assumes in writing all of Landlord's obligations hereunder; (d) the Permitted Transferee is creditworthy to Tenant's reasonable satisfaction and has a tangible net worth (excluding good will), as evidenced by financial statements delivered to Tenant and certified by an independent certified public accountant in accordance with generally accepted accounting principles that are consistently applied ("Net Worth"), at least equal to Landlord's Net Worth either (x) immediately before the date of such transfer or (y) as of the date of the Space Lease, whichever is greater; (e) Landlord shall not be relieved or released from any of its duties, liabilities or obligations hereunder, by reason of such Permitted Transfer; (f) Landlord obtains the written consent of CFIA and the Trustee; (g) the transferee enters into the Base Rent Assignment Agreement; (h) if the transfer involves an affiliate of Landlord, Landlord provides a non-consolidation opinion; and (i) Landlord simultaneously transfers its interest as tenant under the Developer Ground Lease to the Permitted Transferee.

Tenant Transfer. Tenant may not transfer, assign, or hypothecate its interest in the Space Lease or sublet all or any portion of the Premises without the prior written consent of Landlord and CFIA in each instance; provided, that Landlord's consent shall not be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing, Tenant may transfer or assign its interest in the Space Lease to UCSF or any other Person Affiliated with or Controlled by Tenant without the need for Landlord's consent so long as (a) Tenant provides Landlord with written notice of any such transaction, (b) Tenant obtains the written consent of CFIA and the Trustee, and (c) the originally-named Tenant (i.e. The Regents of the University of California) remains primarily obligated for the performance of all of its obligations hereunder. Base Rent shall not be assigned in any manner other than pursuant to the Base Rent Assignment Agreement without the prior written consent of the Trustee provided in accordance with the Indenture, which requires that no such consent may be given if it would materially and adversely affect the owners of the Bond.

DESTRUCTION

Should the Premises be damaged or destroyed, in whole or in part, by fire, flood, earthquake, windstorm, the elements, casualty, accident, war, riot, public disorder, acts authorized or unauthorized by any Governmental Authority, or any other cause or happening (each a "Casualty"), the Parties agree as follows:

(a) Restoration Notice. Within thirty (30) days of the Casualty Landlord shall notify Tenant in writing (the "Casualty Notice") of its reasonable estimate of how long it will take (after the date of the Casualty) to completely restore the Premises including time required to obtain insurance, to prepare plans for reconstruction, to obtain building permits, to account for weather conditions, and to complete the likely contract bidding process and all other relevant factors. Within sixty (60) days after receipt of the Casualty Notice, Tenant shall deliver to Landlord written notice of Tenant's determination of whether to proceed with the restoration of the Premises (the "Tenant Casualty Notice").

(b) No Termination; Base Rent Continues. Regardless of the extent of the Casualty and/or the period required to completely restore the Premises, neither party will have the right to terminate the Space Lease due to a Casualty. Additionally, Tenant's obligation to pay the full amount of Base Rent due under the Space Lease will not be abated for any period of time due to a Casualty, and Tenant will remain obligated to pay Base Rent as and when it becomes due during any restoration period, even if the entire Premises is destroyed or Tenant is not able to use all or any portion of the Premises due to a Casualty. Without limiting the foregoing, Tenant's obligation to pay Base Rent to the Trustee pursuant to the Base Rent Assignment Agreement will survive any assignment of the Space Lease from Landlord to CFIA pursuant to the Casualty Assignment.

(c) Operating Expense Mitigation. If any Casualty damages the Premises (which Casualty is not caused by Tenant), and all or any portion of the Premises are not occupied by Tenant as a result thereof, then during the time and to the extent the Premises, or any portion thereof, are unfit for Tenant's use and occupancy, Landlord shall use commercially reasonable efforts to reduce or mitigate any Operating Expenses which can be reduced or mitigated for Tenant's benefit.

(d) Landlord's Restoration. If the Tenant Casualty Notice is to proceed with the restoration of the Premises, Landlord's obligation to restore the Premises shall be conditioned upon a work letter setting forth such terms and conditions as Landlord and Tenant may agree, including whether to cause construction by a design-bid/permit-build approach or a design-build approach, any fees Landlord may charge in connection therewith, and the terms of any warranty of Landlord's work (the "Restoration Work Letter"). If Landlord and Tenant fail to execute, in their respective sole and absolute discretion, the Restoration Work Letter within ninety (90) days after delivery of the Tenant Casualty Notice, then the Tenant Casualty Notice shall instead be deemed a notice not to proceed with the restoration of the Premises, and the provisions of paragraph (e) below shall govern. If the Restoration Work Letter is fully executed in a timely manner, then Landlord shall diligently and with commercially reasonable promptness repair and restore the Premises to the condition existing prior to the Casualty (except for Tenant's personal property), in accordance with the plans, specifications, schedule and other information submitted with the Casualty Notice and subject to the payment of applicable construction costs by Tenant. During a restoration period, if Tenant elects in writing to have Landlord provide Tenant with any temporary services that Tenant may reasonably require to continue using, operating and occupying the Premises, Landlord will do so (subject to mutual agreement with respect to

administrative and other fees Landlord may charge in connection therewith) and Tenant shall pay Landlord for such costs and fees as Other Rent.

(e) Casualty Assignment. If the Tenant Casualty Notice is not to proceed, Landlord shall assign Landlord's interest in the Space Lease (other than its interests assigned pursuant to the Base Rent Assignment Agreement) to CFIA or its designee (the "Casualty Assignment") pursuant to the Space Lease Assignment Agreement and CFIA (or its designee) and Landlord shall enter into an assignment agreement in the form attached to the Space Lease as Exhibit D (the "Space Lease Assignment Agreement"). By the Space Lease Assignment Agreement, Landlord's rights, interests and obligations in, to and under the Space Lease will be fully transferred and assigned to, and assumed by, CFIA (or its designee) for the remainder of the Lease Term, and Landlord will be released from its obligations under the Space Lease from and after the effective date of such assignment and assumption, excluding any obligations that by their nature survive such transfer, in particular Landlord's indemnity obligations and its obligations with regard to any Reconciliation of Additional Rent and resulting payment to Tenant of any overpayment. Within thirty (30) days after the Space Lease Assignment Agreement is executed and delivered, Landlord will be paid an additional amount equal to the net present value of the asset management fee.

NO TERMINATION OR ABATEMENT

Tenant acknowledges and agrees that Tenant has no right whatsoever to terminate the Space Lease for any reason whatsoever, and that in no event, whether based on a casualty event, condemnation, Landlord Default, or any other cause whatsoever, Tenant's obligations to pay the Base Rent to the Trustee pursuant to the Base Rent Assignment Agreement and the Additional Rent and Other Rent to Landlord pursuant to the Space Lease will not be abated, reduced or terminated.

DEFAULT BY TENANT

Default. Each of the following events will be a "Tenant Default":

- a) A failure to pay Base Rent as and when due and payable; or
- b) A failure to pay Additional Rent or Other Rent as and when due and payable when such failure continues for a period in excess of ten (10) Business Days after written notice; or
- c) Tenant fails to perform or observe any other covenant or undertaking of Tenant under the Space Lease and such failure continues for a period in excess of twenty (20) Business Days after written notice thereof; provided if the nature of Tenant's obligation is such that more than twenty (20) Business Days are required for performance, then Tenant will not be in default if Tenant commences performance within such twenty (20) Business Day period and thereafter diligently prosecutes the same to completion within forty (40) Business Days following such notification; or
- d) Tenant (i) is dissolved, liquidated or terminated or be adjudicated as bankrupt or insolvent; (ii) makes a general assignment for the benefit of its creditors; (iii) files a petition, answer, or consent seeking, or have entered against it (or fail reasonably to contest the material allegations of any petition for) an order for relief under any provision of the Bankruptcy Code (or any similar remedy under any provision of the Bankruptcy Code), or consents to the institution of any proceedings thereunder; (iv) convenes a meeting of its creditors, or any class thereof, for the purpose of effecting a moratorium upon or extension or composition of its debts; (v) admits in writing that it is generally not able to pay its debts as they mature or generally not pay its debts as they mature; or (vi) applies for a consent to the appointment of a receiver, trustee, custodian, liquidator or other similar official of all or a portion of its assets; or
- e) The occurrence of any of the following: (i) a petition is filed or any case or proceeding described in paragraph (d) above is commenced against Tenant or against the assets of Tenant unless such petition and the case or proceeding initiated thereby is dismissed within ninety (90) days from the date of the filing; (ii) an answer is filed by Tenant admitting the allegations of any such petition; or (iii) a court of competent jurisdiction enters an order, judgment or decree appointing, without the consent of Tenant, a custodian, trustee,

agent, or receiver of Tenant or for all or any part of its assets or authorizing the taking possession by a custodian, trustee, agent or receiver of Tenant or all or any part of its assets unless such appointment is vacated or dismissed or such possession is terminated within ninety (90) days from the date of such appointment or commencement of such possession, but not later than five (5) days before the proposed sale of any assets of Tenant by Tenant's custodian, trustee, agent or receiver, other than in the ordinary course of the business of Tenant; or

f) A lien is filed against the Premises or Building, or Landlord's interest therein, by reason of any work, labor, services or materials performed or furnished, or alleged to have been performed or furnished, to Tenant or anyone holding the Building or the Premises by, through or under Tenant, and Tenant fails to cause the same to be vacated and canceled of record, or bonded off in accordance with applicable Laws within thirty (30) days.

Landlord's Sole and Exclusive Remedies. If a Tenant Default occurs and is continuing, Landlord will be entitled to exercise only those the remedies set forth below, but waives any other remedies available to it under applicable law, the parties agreeing that the limited remedies provided in the Space Lease are a material inducement to Tenant entering into the transactions contemplated by the Space Lease, and absent such limited remedies Tenant would not have entered into the Space Lease. In particular, but without limitation, Landlord waives any rights it may have to terminate the Space Lease or Tenant's right to possession of the Premises due to any Tenant Default.

Self Help. Landlord may elect to perform the obligation at Tenant's cost, with the actual costs Landlord incurs in such performance, plus a ten percent (10%) administrative fee and any reasonable legal fees incurred by Landlord due to the Tenant Default being payable by Tenant as Other Rent within thirty (30) days after Tenant's receipt of Landlord's written demand therefor.

Damages. Landlord will be entitled to seek from Tenant the amount of any damages suffered by Landlord due to a Tenant Default, which amount shall be payable by Tenant as Other Rent within thirty (30) days after Tenant's receipt of Landlord's written demand therefor.

Interest. Any payment of Base Rent not paid by Tenant on the date due will bear interest at the rate (the "Default Rate") that is the lesser of (i) fifteen percent (15%) per annum, and (ii) the highest rate permitted by applicable Laws, from the date delinquent until paid in full; provided (A) in no event shall a delinquent payment of Base Rent accrue interest at a rate higher than the applicable "default" interest rate payable under the Indenture for such delinquent payment, and (B) in the event that the interest rate under subclause (A) is greater than the Default Rate, then Tenant shall separately be obligated to reimburse Landlord for such excess interest to the extent Landlord has been required to pay any such amounts to the Trustee in accordance with the Base Rent Assignment Agreement or any other agreement entered into in connection with the Bonds. Any payment of Additional Rent or Other Rent not received within ten (10) Business Days of the date due will bear interest at the Default Rate, from the date delinquent until paid in full and shall incur a late fee of five percent (5%) of the overdue amount.

Tenant Default Assignment Right. Subject to the Base Rent Assignment Agreement, Landlord may elect upon a Tenant Default, with written notice to Tenant and CFIA, to assign its rights, interest and obligations under the Space Lease to CFIA or its designee (the "Tenant Default Assignment Right"). If Landlord exercises the Tenant Default Assignment Right, then CFIA (or its designee) and Landlord will promptly enter into the Space Lease Assignment Agreement whereby Landlord's interest in the Space Lease will be fully transferred and assigned to, and assumed by, CFIA (or its designee) for the remainder of the Lease Term, and Landlord will be released from its obligations under the Space Lease from and after the effective date of such assignment, excluding any obligations that by their nature survive such transfer, in particular Landlord's indemnity obligations and its obligations with regard to any Reconciliation of Additional Rent and resulting payment to Tenant of any over-payment; and Tenant shall pay to Landlord any damages owed to Landlord on account of such Tenant Default and an additional amount equal to the net present value of the asset management fee (computed in accordance with the Space Lease). Notwithstanding anything to the contrary contained herein, if, prior to the Lease Expiration Date, the Space Lease and/or the Developer Ground Lease terminates and/or Landlord elects to assign or is required to assign its interest in the Space Lease or the Developer Ground Lease for any reason (except as a result of Landlord's default thereunder or an elective transfer under the Space Lease or the Developer Ground Lease), Tenant shall pay to Landlord an amount equal to the net present value of the asset management fee. Landlord will not be allowed to exercise the Tenant Default Assignment Right if a Landlord Default is then continuing. Without limiting the foregoing, Tenant's

obligation to pay Base Rent to the Trustee pursuant to the Base Rent Assignment Agreement will survive any assignment of the Space Lease from Landlord to CFIA (or its designee) pursuant to Landlord's exercise of its Tenant Default Assignment Right.

DEFAULT BY LANDLORD

Default. Each of the following events constitute a "Landlord Default":

(a) A failure to pay any amounts as and when due and payable under the Space Lease when such failure continues for a period in excess of ten (10) Business Days after written notice (provided, that for the first such failure in any twelve (12)-month period, a second written notice shall be given and a Landlord Default shall not be deemed to have occurred unless Landlord fails to cure such failure within ten (10) Business Days thereafter); or

(b) The failure or refusal of Landlord to commence performance of any obligation it has under the Space Lease within a reasonable period of time after written notice of the occurrence of an Emergency, to the extent (x) Landlord's performance of such obligation is necessary to prevent injury or loss of life, (y) the nature of such obligation is such that Tenant cannot perform such obligation for itself, and (z) the nature of such obligation is such that it can be commenced promptly upon the occurrence of an Emergency; or

(c) Landlord fails, in any material respect, to perform or observe any covenant or undertaking of Landlord under the Space Lease and such failure continues for thirty (30) Business Days after delivery of written notice thereof by Tenant to Landlord (unless another provision of the Space Lease provides for a different specific cure or performance period (which specific provision shall be controlling)); provided if the nature of Landlord's obligation is such that more than thirty (30) Business Days (or the above-referenced other different specific cure or performance period) are required for performance, then a Landlord Default will not have occurred so long as Landlord commences performance within such thirty (30) Business Day (or other specific cure or performance) period and thereafter diligently prosecutes the same to completion within ninety (90) Business Days following such notification; or

(d) Landlord (i) is dissolved, liquidated or terminated or be adjudicated as bankrupt or insolvent; (ii) makes a general assignment for the benefit of its creditors; (iii) files a petition, answer, or consent seeking, or have entered against it (or fail reasonably to contest the material allegations of any petition for) an order for relief under any provision of the Bankruptcy Code (or any similar remedy under any provision of the Bankruptcy Code), or consent to the institution of any proceedings thereunder; (iv) convenes a meeting of its creditors, or any class thereof, for the purpose of effecting a moratorium upon or extension or composition of its debts; (v) admits in writing that it is generally not able to pay its debts as they mature or generally not pay its debts as they mature; or (vi) applies for a consent to the appointment of a receiver, trustee, custodian, liquidator or other similar official of all or a portion of its assets; or

(e) The occurrence of any of the following: (i) a petition is filed or any case or proceeding described in paragraph (d) above is commenced against Landlord or against the assets of Landlord unless such petition and the case or proceeding initiated thereby is dismissed within ninety (90) days from the date of the filing; (ii) an answer is filed by Landlord admitting the allegations of any such petition; or (iii) a court of competent jurisdiction enters an order, judgment or decree appointing, without the consent of Landlord, a custodian, trustee, agent, or receiver of Landlord or for all or any part of its assets or authorizing the taking possession by a custodian, trustee, agent or receiver of Landlord or all or any part of its assets unless such appointment is vacated or dismissed or such possession is terminated within ninety (90) days from the date of such appointment or commencement of such possession, but not later than five (5) days before the proposed sale of any assets of Landlord by Landlord's custodian, trustee, agent or receiver, other than in the ordinary course of the business of Landlord; or

(f) The termination of the Developer Ground Lease as a result of a default by Landlord thereunder beyond any applicable notice and cure periods; or

(g) The termination of the Development Agreement as a result of a default by Landlord thereunder beyond any applicable notice and cure periods.

Tenant's obligation to provide written notice to Landlord of a Landlord Default is limited to those instances where knowledge of the Landlord Default is within the actual knowledge of Tenant.

Remedies. In addition to any other remedies Tenant may have under applicable Laws, if a Landlord Default occurs, then Tenant will be entitled to exercise the remedies set forth below:

(a) Tenant may, but shall not be required to, perform the obligation that caused the Landlord Default, and Landlord will reimburse Tenant for such actual expenses as are incurred by Tenant while performing such obligations, plus a one percent (1%) administrative fee, within thirty (30) days after receipt of demand therefor, along with any reasonable legal fees incurred by Tenant due to the Landlord Default; provided the self-help remedy set forth in this sentence with respect to any Landlord Default shall cease as of the day that Tenant first completes the cure of such Landlord Default as a result of exercising such self-help remedy. If Landlord fails to reimburse Tenant for Tenant's costs as required in the first sentence of this paragraph, or to dispute in good faith Landlord's obligation to do so, Tenant may thereafter abate the Additional Rent (and/or Other Rent) due under the Space Lease to recover such costs.

(b) Tenant may also require that Landlord assign its interest in the Space Lease to CFIA or its designee (the "Landlord Default Assignment Right") and to cause Landlord and CFIA (or its designee) to enter into the Space Lease Assignment Agreement whereby Landlord's interest in the Space Lease will be fully transferred and assigned to, and assumed by, CFIA (or its designee) for the remainder of the Lease Term, and Landlord will be released from its obligations under the Space Lease from and after the effective date of such assignment, excluding any obligations that by their nature survive such transfer, in particular Landlord's indemnity obligations and its obligations with regard to any Reconciliation of Additional Rent and resulting payment to Tenant of any over-payment; provided Tenant will not be allowed to exercise this forced assignment right if a Tenant Default is then continuing. Without limiting the foregoing, Tenant's obligation to pay Base Rent shall survive any assignment of the Space Lease from Landlord to CFIA (or its designee) pursuant to Tenant's exercise of its Landlord Default Assignment Right.

CONDEMNATION

Taking. If the event of a Taking, the Parties agree as follows:

(a) Within thirty (30) days of the Taking, Landlord shall notify Tenant in writing (the "Taking Notice") of its reasonable estimate of how long it will take (after the date of the Taking) to restore the remaining portion of the Premises to the extent necessary to render them reasonably suitable for the purposes leased hereunder, including time required to obtain any awards, to prepare plans for reconstruction, to obtain building permits, to account for weather conditions, and to complete the likely contract bidding process and all other relevant factors. Within sixty (60) days after receipt of the Taking Notice, Tenant shall deliver to Landlord written notice of Tenant's determination of whether to proceed with the restoration of the Premises (the "Tenant Taking Notice").

(b) Regardless of the extent of the Taking and/or the period required to restore the Premises, neither Party shall have the right to terminate the Space Lease due to a Taking. Additionally, Tenant's obligation to pay the full amount of Base Rent due under the Space Lease shall not be abated for any period of time due to a Taking, and Tenant shall remain obligated to pay Base Rent as and when it becomes due during any restoration period, even if the entire Premises is taken or Tenant is not able to use all or any portion of the Premises due to a Taking. Without limiting the foregoing, Tenant's obligation to pay Base Rent to the Trustee pursuant to the Base Rent Assignment Agreement shall survive any assignment of the Space Lease from Landlord to CFIA pursuant to the Taking Assignment.

(c) If the Tenant Taking Notice is to proceed with the restoration of the Premises, Landlord's obligation to restore the Premises shall be conditioned upon a Restoration Work Letter. If Landlord and Tenant fail to execute, in their respective sole and absolute discretion, the Restoration Work Letter within ninety (90) days after

delivery of the Tenant Taking Notice, then the Tenant Taking Notice shall instead be deemed a notice to not proceed with the restoration of the Premises, and the provisions of paragraph (d) below shall govern. If the Restoration Work Letter is fully executed in a timely manner, then Landlord shall diligently and with commercially reasonable promptness repair and restore the Premises to the condition described in the Taking Notice (except for Tenant's personal property), in accordance with the plans, specifications, schedule and other information submitted therewith and subject to the payment of applicable construction costs by Tenant. During a restoration period, if Tenant elects in writing to have Landlord provide Tenant with any temporary services that Tenant may reasonably require to continue using, operating and occupying the Premises, Landlord shall do so and Tenant shall pay Landlord for such costs and fees as Other Rent.

(d) If the Tenant Taking Notice is not to proceed, Landlord shall exercise the Taking Assignment pursuant to the Space Lease Assignment Agreement and CFIA (or its designee) and Landlord shall enter into the Space Lease Assignment Agreement. By the Space Lease Assignment Agreement, Landlord's rights, interests and obligations in, to and under the Space Lease shall be fully transferred and assigned to, and assumed by, CFIA (or its designee) for the remainder of the Lease Term, and Landlord shall be released from its obligations under the Space Lease from and after the effective date of such assignment and assumption, excluding any obligations that by their nature survive such transfer, in particular Landlord's indemnity obligations and its obligations with regard to any Reconciliation of Additional Rent and resulting payment to Tenant of any over-payment. Within thirty (30) days after the Space Lease Assignment Agreement is executed and delivered, Landlord will be paid an additional amount equal to the net present value of the asset management fee.

(e) If all or any portion of the Premises are not occupied by Tenant as a result of a Taking, then during the time and to the extent the Premises, or any portion thereof, are unfit for Tenant's use and occupancy, Landlord will use commercially reasonable efforts to reduce or mitigate any Operating Expenses which can be reduced or mitigated for Tenant's benefit.

Award. In the event of any Taking as provided above, either whole or partial, where the Tenant Taking Notice is to proceed, Tenant will not be entitled to any part of the award as damages or otherwise for such condemnation and Landlord is to receive the full amount of such award, subject to the provisions of the Developer Ground Lease; provided nothing in the Space Lease shall prevent Tenant from making a separate claim for damages. If the Tenant Taking notice is not to proceed, Tenant will be entitled to the entire award related to such Taking, and Landlord assigns to Tenant any interest it may have in such award to Tenant and will take such actions as may be required to effectuate such assignment. Furthermore, Tenant will be entitled to receive and retain any amounts which may be specifically awarded in such condemnation proceedings because of the taking of its trade fixtures and personal property and for relocation expenses.

NO SUBORDINATION

The Space Lease, and the rights, title and interests of Tenant thereunder, shall in no event be subject or subordinated to any Lien which are or may be placed against the Landlord's interest or estate in the Site or Premises; provided, such restriction shall not apply to Liens or other claims made by Issuer.

MISCELLANEOUS PROVISIONS

Continuing Disclosure. During the Lease Term Landlord will provide such information about the Premises and the performance of its obligations under the Space Lease as may be necessary or convenient for the parties to comply with any applicable requirements of any continuing disclosure agreement entered into pursuant to SEC Rule 15C2-12.

Tax Covenants. Landlord agrees that it will: (i) not claim tax deductions for depreciation of the Premises; (ii) not treat itself as the "tax owner" of the Premises on its books or records; or (iii) not treat itself as the owner of the Bond proceeds for tax or accounting purposes. Tenant covenants that it will not use or permit any use of the Premises, and will not take or permit to be taken any other action or actions, which would cause any Bond to be a "private activity bond" within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated from time to time thereunder. Tenant further covenants that it will not take any action or fail to take any action, if such action or the failure to take such action would, in the opinion of

nationally recognized bond counsel, adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Developer Ground Lease. Tenant will not take any actions on or about the Premises or in connection with the Space Lease that would cause a default by Landlord under the Developer Ground Lease, or a default by CFIA under the Master Ground Lease.

Non-Disturbance. In the event of a termination of the Landlord's interest in the Developer Ground Lease due to a default by Landlord thereunder, Tenant hereby agrees to attorn to CFIA as a direct tenant under the Space Lease and execute any documents reasonably requested by CFIA in connection therewith, such agreement to attorn being self-operative and without the need for further documentation.

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

California Infrastructure
and Economic Development Bank
Sacramento, California

California Infrastructure and Economic Development Bank
Revenue Bonds (UCSF 2130 Third Street), Series 2017
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Infrastructure and Economic Development Bank (the “Issuer”) in connection with the issuance of \$170,980,000 aggregate principal amount of California Infrastructure and Economic Development Bank Revenue Bonds (UCSF 2130 Third Street), Series 2017 (the “Bonds”), issued pursuant to an Indenture, dated as of December 1, 2017 (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 Campus Facilities Improvement Association (the “Borrower”) pursuant to a Loan Agreement, dated as of December 1, 2017 (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 Space Lease, dated as of December 1, 2017 (the “Space Lease”), between The Regents of the University of California (“The Regents”), as tenant, and SKS/Prado 2130 Third, LLC, as landlord, the Tax Certificate and Agreement, dated the date hereof (the “Tax Certificate”), among the Issuer, the Borrower and The Regents, opinions of counsel to the Issuer, the Borrower, The Regents and the Trustee, certificates of the Issuer, the Borrower, The Regents, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this 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 and The Regents. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, the Space Lease 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, the Space Lease 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 entities 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 any competitive bidding requirement affecting the Space Lease, or the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture, the Loan Agreement or the Space Lease or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. 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. The Space Lease has been duly executed and delivered by, and constitutes a valid and binding agreement of, The Regents.
5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 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, although we observe that it is 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 FOR THE BONDS

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 Bonds, as nominee of DTC, references in this Official Statement, including the Appendices hereto, to the Owners of the 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 Bonds.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds initially will be issued in the form of fully registered, book-entry only bonds 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. Purchasers of Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form in Authorized Denominations by credit to participating broker-dealers and other institutions on the books of DTC as described herein. Payments of principal of and interest on the Bonds will be made by the Trustee directly to DTC or its nominee, Cede & Co., as the registered owner thereof. Disbursement of such payments to the DTC Participants (as defined herein) is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants (as defined herein), as more fully described herein. Any purchaser of beneficial interests in the Bonds must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of the principal of and interest on such Bonds.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 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. The information contained in such websites is not incorporated by reference herein.

Purchases of Bonds under the DTC system must be made by or through DTC Participants which will receive a credit for the in the records of DTC. The ownership interest of each Beneficial Owner is in turn to be recorded in the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participants or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds will be accomplished by entries made on the books of DTC Participants and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event the use of the book-entry system for the Bonds is discontinued.

SO LONG AS CEDE & CO., AS THE NOMINEE FOR DTC, IS THE REGISTERED OWNER OF THE BONDS, THE INFRASTRUCTURE BANK AND THE TRUSTEE WILL TREAT CEDE & CO. AS THE ONLY REGISTERED OWNER OF THE BONDS FOR ALL PURPOSES UNDER THE INDENTURE, INCLUDING RECEIPT OF ALL PRINCIPAL OF AND INTEREST ON THE BONDS, RECEIPT OF NOTICES, VOTING, AND REQUESTING OR DIRECTING THE TRUSTEE TO TAKE OR NOT TO TAKE, OR CONSENTING TO, CERTAIN ACTIONS UNDER THE INDENTURE.

To facilitate subsequent transfers, all Bonds deposited by DTC 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 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 Bonds; DTC's records reflect only the identity of the DTC Participants in whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding 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 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to The Regents as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from The Regents or the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or The Regents, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of The Regents or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to The Regents or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered in accordance with the provisions set forth in the Indenture.

The Infrastructure Bank may decide to discontinue use of the system of book-entry-only transfers through DTC. In that event, bond certificates will be printed and delivered to DTC.

In the event the Infrastructure Bank determines that it is in the best interests of the Beneficial Owners of the Bonds that they be able to obtain bond certificates, the Infrastructure Bank may notify DTC and the Trustee, whereupon DTC will notify the DTC Participants and Indirect Participants of the availability through the nominee or DTC of bond certificates. In such event, the Trustee will issue, transfer, and exchange Bond certificates as requested by DTC and any other Owners in appropriate amounts, and whenever the Bond Depository requests the Infrastructure Bank and the Trustee to do so, the Infrastructure Bank and the Trustee will cooperate with DTC by taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bonds to any nominee or DTC Participant having Bonds credited to its account or (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

Notwithstanding any other provision described herein or contained in the Indenture to the contrary, so long as any Bond is registered in the name of the nominee of DTC, all payments with respect to the principal of and interest on such Bond will be made and given, respectively, to the nominee or DTC in the manner provided in the Blanket Letter of Representation entered into between DTC and the Infrastructure Bank.

In connection with any notice or communication to be provided to Owners pursuant to the Indenture by the Infrastructure Bank or the Trustee with respect to any consent or other action to be taken by Owners, the Infrastructure Bank, or the Trustee, as the case may be, will establish a record date for such consent or other action and give the nominee or DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

THE INFRASTRUCTURE BANK, THE BORROWER AND THE TRUSTEE DO NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DTC PARTICIPANT OR ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE BONDS; (B) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (C) THE PAYMENT OF DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER WITH RESPECT TO THE PRINCIPAL OF AND INTEREST ON THE BONDS; (D) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO OWNERS; (E) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (F) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE, CEDE & CO., AS OWNER.

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