

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Infrastructure Bank, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and interest on the Series 2010 Bonds is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is interest on the Series 2010A Bonds included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel observes that interest on the Series 2010B Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Bonds. See "TAX MATTERS" herein.

**CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK
Revenue Bonds
(UCSF Neurosciences Building 19A)**

**\$19,670,000 SERIES 2010A
\$188,000,000 SERIES 2010B (TAXABLE—BUILD AMERICA BONDS)**

Dated: Date of Delivery

Due: May 15, as shown on the inside cover

California Infrastructure and Economic Development Bank (the "Infrastructure Bank") is offering \$19,670,000 aggregate principal amount of its Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010A (the "Series 2010A Bonds") and \$188,000,000 aggregate principal amount of its Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010B (Taxable-Build America Bonds) (the "Series 2010B Bonds"). The proceeds of the sale of the Series 2010A Bonds and the Series 2010B Bonds (collectively, the "Series 2010 Bonds") will be used to provide funds to (i) construct the UCSF Neurosciences Building 19A (the "Series 2010 Project"), and (ii) fund capitalized interest and certain other funds and expenses authorized under the Indenture. See "ESTIMATED SOURCES AND USES OF FUNDS" herein. The Series 2010 Project financed by the Series 2010 Bonds will be owned by Edgemoor/McCarthy Cook Partners LLC, a California limited liability company (the "Developer"), and will be leased to the University, which will occupy the Series 2010 Project.

The Series 2010 Bonds are being issued under and pursuant to the Constitution and laws of the State of California, Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division I of Title 6.7 (commencing with Section 63000) of the California Government Code, as amended (the "Act"), and an Indenture, dated as of March 1, 2010 (the "Indenture"), between the Infrastructure Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Principal of, premium, if any, and interest on the Series 2010 Bonds are payable solely, except to the extent paid out of moneys attributable to proceeds of the Series 2010 Bonds and from temporary investments thereof, from a pledge of moneys derived from a Loan Agreement, dated as of March 1, 2010, between the Infrastructure Bank and the Borrower (the "Loan Agreement"), 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 SERIES 2010 BONDS."

The Borrower's obligations with respect to the Series 2010 Bonds are non-recourse. See "NON-RE COURSE OBLIGATION OF THE BORROWER" herein.

The Series 2010 Bonds are being offered on the basis of the financial strength of the University 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 University's 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 Series 2010 Project and that such obligation is not subject to abatement in the event of damage or destruction of the Series 2010 Project. The University's obligation to make payments of Base Rent under the Space Lease is an unsecured, general obligation of the University. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 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 Series 2010 Bonds.

THE SERIES 2010 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE INFRASTRUCTURE BANK) OR THE UNIVERSITY OF CALIFORNIA ("THE UNIVERSITY") BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE INFRASTRUCTURE BANK SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE SERIES 2010 BONDS, OR THE PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE INDENTURE AND THE LOAN AGREEMENT AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE INFRASTRUCTURE BANK) OR THE UNIVERSITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2010 BONDS. THE ISSUANCE OF THE SERIES 2010 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR THE UNIVERSITY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. NEITHER THE INFRASTRUCTURE BANK NOR THE UNIVERSITY HAS ANY TAXING POWER.

The Series 2010 Bonds will be issued as fully registered bonds without coupons in denominations of \$5,000 and any multiple thereof. The Series 2010 Bonds will bear interest from the Date of Delivery, payable semiannually on each May 15 and November 15, commencing November 15, 2010 (each, an "Interest Payment Date"). The Series 2010 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 Series 2010 Bonds. So long as Cede & Co. is the registered owner of the Series 2010 Bonds, references herein to the Owners of the Series 2010 Bonds shall mean Cede & Co. and will not mean the beneficial owners of the Series 2010 Bonds. So long as Cede & Co. is the registered owner of the Series 2010 Bonds, the payment of principal of, interest, and premium, if any, on the Series 2010 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 SERIES 2010 BONDS" herein.

The Series 2010 Bonds will be subject to redemption prior to their stated maturities, as described herein.

The Series 2010 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. Certain legal matters will be passed upon for the Infrastructure Bank by its Senior Staff Counsel, Sacramento, California; the University by its Office of General Counsel; Sheppard Mullin Richter & Hampton LLP, counsel to the Borrower; Pillsbury Winthrop Shaw Pittman LLP, counsel to the Developer; and O'Melveny & Myers LLP, counsel to the Underwriters. It is expected that the Series 2010 Bonds will be available for delivery to DTC in New York, New York on or about March 25, 2010.

Barclays Capital

Wells Fargo Securities

MATURITY AND PRICING SCHEDULE

SERIES 2010A BONDS

| Maturity (May 15) | Principal Amount | Interest Rate | Yield | CUSIP No.** |
|----------------------|------------------|---------------|---------|-------------|
| 2021 | \$3,560,000 | 5.000% | 3.710%* | 13033W3T8 |
| 2022 | 3,735,000 | 5.000 | 3.800* | 13033W3U5 |
| 2023 | 3,925,000 | 5.000 | 3.890* | 13033W3V3 |
| 2024 | 4,120,000 | 5.000 | 3.990* | 13033W3W1 |
| 2025 | 4,330,000 | 5.000 | 4.090* | 13033W3X9 |

SERIES 2010B BONDS (TAXABLE—BUILD AMERICA BONDS)

\$188,000,000 6.486% Term Bond due May 15, 2049 Price: 100.000 CUSIP No.** 13033W3Y7

* Priced to the May 15, 2020 par call date.

** CUSIP Copyright 2009, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. None of the Infrastructure Bank, the Borrower, the University or the Underwriters assumes any responsibility for the accuracy of such numbers.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2010 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010 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 University, 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 or the Borrower since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

THE SERIES 2010 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

THE SERIES 2010 BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR WITH THE SECURITIES COMMISSION OR ANY REGULATORY AUTHORITY OF ANY STATE, NOR HAS THE SEC OR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The information set forth herein under the captions "THE INFRASTRUCTURE BANK" and "NO LITIGATION—The Infrastructure Bank" has been furnished by the Infrastructure Bank, and the information set forth herein under the caption "THE SERIES 2010 BONDS—Book-Entry Only System for the Series 2010 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 University. All other information set forth herein has been obtained from the Borrower, the Developer, the University and other sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Infrastructure Bank. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2010 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 University, 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 University and the terms of the offering, including the merits and risks involved. Prospective investors should not construe the contents of this Official Statement as legal, tax or investment advice.

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SUMMARY STATEMENT

The following Summary Statement is qualified in its entirety by the more detailed information contained elsewhere in this Official Statement and the appendices hereto (collectively, this “Official Statement”). The offering of the Series 2010 Bonds to potential investors is made only by means of this entire Official Statement, and no person is authorized to detach the following Summary Statement from this Official Statement or to use it otherwise without the entire Official Statement.

The Infrastructure Bank

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

The Series 2010 Project

The Series 2010 Project, to be known as the “UCSF Neurosciences Building 19A,” is intended to be a five-story, 237,000 square foot research and laboratory facility, designed to understand, treat and prevent diseases of the nervous system for the UCSF Neuroscience Department and the Keck Institute, each of which is intended to be located within the Series 2010 Project. The Series 2010 Project will be developed on the UCSF Mission Bay research campus by a private developer pursuant to a public/private delivery process, the form of which has not previously been used by the University. (See “Investment Considerations” below.) Construction of the Series 2010 Project is expected to commence in April 2010, with substantial completion expected to occur approximately twenty-four months after the commencement of construction. For additional information regarding the Series 2010 Project, see “THE SERIES 2010 PROJECT” herein.

The Borrower

Campus Facilities Improvement Association (the “Borrower”) is a California non-profit public benefit corporation. The proceeds of the Series 2010 Bonds will be loaned to the Borrower pursuant to a Loan Agreement, dated as of March 1, 2010, between the Infrastructure Bank and the Borrower (the “Loan Agreement”), to be applied by the Borrower to (i) construct the UCSF Neurosciences Building 19A (the “Series 2010 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 Series 2010 Bonds

The Infrastructure Bank will issue \$19,670,000 aggregate principal amount of revenue bonds to be designated “California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010A” (the “Series 2010A Bonds”) and \$188,000,000 aggregate principal amount of revenue bonds to be designated “California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A) Series 2010B (Taxable-Build America Bonds)” (the “Series 2010B Bonds”) pursuant to an Indenture (the “Indenture”), dated as of March 1, 2010, between the Infrastructure Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). See “THE SERIES 2010 BONDS” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Security and Sources of Payment for the Series 2010 Bonds

As security for its obligations under the Series 2010 Bonds, the Infrastructure Bank will enter into the Indenture, pursuant to which it will transfer, assign and set over to the Trustee all of the Revenues and any and all rights and privileges, other than the Reserved Rights, it has under the Loan Agreement,

including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest. Any Revenues collected or received by the Infrastructure Bank will be deemed to be held and to have been collected or received by the Infrastructure Bank for the benefit of the Owners of the Series 2010 Bonds will be paid by the Infrastructure Bank to the Trustee. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS” herein and APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS.”

Pursuant to the Space Lease, the Developer will lease the Series 2010 Project to the University and the University will be required to make Base Rent payments in an amount equal to the principal of, premium, if any, and interest on the Series 2010 Bonds. The Space Lease provides that the University’s 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 Series 2010 Project and that such obligation is not subject to abatement in the event of damage or destruction of the Series 2010 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 Series 2010 Bonds, all of its rights to receive the Base Rent payments made by the University.

The Developer

Edgemoor/McCarthy Cook Partners LLC, a California limited liability company (the “Developer”), will lease the site for construction of the Series 2010 Project (the “Series 2010 Project Site”) from the Borrower pursuant to the Sub-Ground Lease (defined below). See “The Ground Lease and the Sub-Ground Lease” below. The Developer will design, build and hold title (with a sub-leasehold interest in such site through the Borrower) for the term of the Sub-Ground Lease, will operate the Series 2010 Project during such period and will lease the Series 2010 Project to the University pursuant to the Sub-Ground Lease and the Space Lease (defined below). 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 founded in 1868. It includes ten component campuses, located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. The University also operates five academic medical centers and more than 200 laboratories, research stations, affiliated schools and activity locations. The California State Constitution provides that the University shall be a public trust administered by the corporation, The Regents of the University of California (“The Regents”), which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and the compliance with certain statutory and administrative requirements. The governing board of the University is composed of 26 members, a majority of whom are appointed by the Governor of the State and approved by a majority vote of the State Senate. See “THE UNIVERSITY OF CALIFORNIA AND THE REGENTS” herein and APPENDIX A—“THE UNIVERSITY OF CALIFORNIA” and APPENDIX B—“THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009.”

Pursuant to the Space Lease (defined below), the University is obligated to pay Base Rent, the proceeds of which will be applied to repay the Series 2010 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 Series 2010 Project will be located on the UCSF Mission Bay campus and will be utilized by UCSF for research purposes. See “THE UNIVERSITY OF CALIFORNIA, SAN FRANCISCO” and “THE SERIES 2010 PROJECT” herein.

**The Ground Lease and
the Sub-Ground Lease**

On or prior to the date of the issuance of the Series 2010 Bonds, (i) the University, as ground lessor, will lease the Series 2010 Project Site to the Borrower, as ground lessee, pursuant to a Ground Lease Agreement (the “Ground Lease”) and (ii) the Borrower, as sub-ground lessor, will sub-lease the Series 2010 Project Site to the Developer, as sub-ground lessee, pursuant to a Sub-Ground Lease Agreement (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

On or prior to the date of the issuance of the Series 2010 Bonds, the Developer, as lessor, will lease the Series 2010 Project to the University, as lessee, pursuant to a Space Lease (the “Space Lease”). The Space Lease provides that the University’s 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 Series 2010 Project and that such obligation is not subject to abatement in the event of damage or destruction of the Series 2010 Project. See “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER – The Space Lease” herein.

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| Investment Considerations | A description of certain factors that should be considered by investors in deciding whether to purchase the Series 2010 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 Series 2010 Bonds. <ul style="list-style-type: none"> — Limited Security; Non-Recourse Obligations; — No credit facility; — Financial condition of the University; — Implications of public/private delivery process; 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 University has covenanted for the benefit of the registered owners and Beneficial Holders of the Series 2010 Bonds to provide certain financial information and operating data relating to the Series 2010 Bonds not later than seven (7) months after the end of the University’s Fiscal Year (which Fiscal Year currently ends June 30), commencing with the report for the Fiscal Year ending June 30, 2010, and to provide notices of the occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” herein and APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – THE 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 in final form will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. Copies of this Official Statement and other relevant documents and information regarding the documents are available upon request from the Underwriters prior to the issuance and delivery of the Series 2010 Bonds and from the Trustee after the issuance and delivery of the Series 2010 Bonds. See “INTRODUCTORY STATEMENT,” “SOURCES OF INFORMATION” and “MISCELLANEOUS” herein. |

OFFICIAL STATEMENT

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK Revenue Bonds (UCSF Neurosciences Building 19A)

**\$19,670,000 SERIES 2010A
\$188,000,000 SERIES 2010B (TAXABLE—BUILD AMERICA BONDS)**

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 \$19,670,000 aggregate principal amount of revenue bonds to be designated “California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010A” (the “Series 2010A Bonds”) and \$188,000,000 aggregate principal amount of revenue bonds to be designated “California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010B (Taxable-Build America Bonds)” (the “Series 2010B Bonds”). The Series 2010A Bonds and the Series 2010B Bonds (collectively, the “Series 2010 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, constituting Division I of Title 6.7 (commencing with Section 63000) of the California Government Code, as amended (the “Act”), and an Indenture, dated as of March 1, 2010 (the “Indenture”), between the Infrastructure Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Series 2010B Bonds will be issued by the Infrastructure Bank as “Build America Bonds” under the American Recovery and Reinvestment Act of 2009.

The proceeds of the sale of the Series 2010 Bonds will be used to provide funds to (i) construct the UCSF Neurosciences Building 19A (collectively, the “Series 2010 Project”), 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 for construction of the Series 2010 Project (the “Series 2010 Project Site”) is located on the Mission Bay campus of the University of California, San Francisco in San Francisco, California (“UCSF”). On or prior to the date of the issuance of the Series 2010 Bonds, the University of California (the “University”), as ground lessor, will lease the Series 2010 Project Site to the Borrower, as lessee, pursuant to a Ground Lease Agreement (the “Ground Lease”). On or prior to the date of issuance of the Series 2010 Bonds, the Borrower, as sub-ground lessor, will sub-lease the Series 2010 Project Site to the Developer, as sub-ground lessee, pursuant to a Sub-Ground Lease Agreement (the “Sub-Ground Lease”). On or prior to the date of the issuance of the Series 2010 Bonds, the Developer, as lessor, will lease the Series 2010 Project to the University, as lessee, pursuant to a Space Lease (the “Space Lease”). **The Space Lease provides that the University’s 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 Series 2010 Project and that such obligation is not subject to abatement in the event of damage or destruction of the Series 2010 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 Series 2010 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 on or prior to the date of issuance of the Series 2010 Bonds, between the Developer and the Trustee (the “Base Rent Assignment Agreement”).

The Infrastructure Bank will lend the proceeds of the Series 2010 Bonds to the Borrower pursuant to a Loan Agreement, dated as of March 1, 2010, between the Infrastructure Bank and the Borrower (the “Loan Agreement”). 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, premium, if any, and interest on the Series 2010 Bonds, as the same mature and become due. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 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-RE COURSE OBLIGATION OF THE BORROWER” herein.

The Series 2010 Bonds are being offered on the basis of the financial strength of the University 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 University’s obligation to make payments of Base Rent is an unsecured, general obligation of the University. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS – Base Rent and the Base Rent Assignment Agreement.”

THE SERIES 2010 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE INFRASTRUCTURE BANK) OR THE UNIVERSITY OF CALIFORNIA (“THE UNIVERSITY”) BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE INFRASTRUCTURE BANK SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE SERIES 2010 BONDS, OR THE PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE INDENTURE AND THE LOAN AGREEMENT AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE INFRASTRUCTURE BANK) OR THE UNIVERSITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2010 BONDS. THE ISSUANCE OF THE SERIES 2010 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR THE UNIVERSITY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. NEITHER THE INFRASTRUCTURE BANK NOR THE UNIVERSITY HAS ANY TAXING POWER.

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 SERIES 2010 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, UCSF, the Series 2010 Project, the Developer, the Series 2010 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 Series 2010 Bonds are qualified in their entirety to the forms thereof included in the Indenture.

THE INFRASTRUCTURE BANK

The California Infrastructure and Economic Development Bank (the “Infrastructure Bank”) is an entity within the Business, Transportation and Housing Agency of the State, organized and existing pursuant to Division 1 of Title 6.7 of the California Government Code, as amended (commencing with Section 63000) (the “Act”). The Infrastructure Bank is authorized and empowered pursuant to the Act to issue the Series 2010 Bonds, to loan the proceeds thereof to the Borrower, to secure the Series 2010 Bonds by a pledge of the amounts payable by the Borrower under the Loan Agreement and to enter into the Loan Agreement and the Indenture pursuant to which the Series 2010 Bonds are to be issued.

The Infrastructure Bank is governed by a five-member board of directors (the “Infrastructure Bank Board”) consisting of the Secretary of the Business, Transportation and Housing Agency, who serves as chair, the State Director of Finance, the State Treasurer, the Secretary of the State and Consumer Services Agency and a Governor’s appointee. The Infrastructure Bank has no taxing power.

The Series 2010 Bonds are limited obligations of the Infrastructure Bank and, as and to the extent set forth in the Indenture, 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. Except for the statements and information set forth in this section and “NO LITIGATION—The Infrastructure Bank” herein, the Infrastructure Bank makes no representations with respect to the accuracy or completeness of the statements and information set forth herein.

THE SERIES 2010 PROJECT

The Series 2010 Project, to be known as the “UCSF Neurosciences Building 19A,” is designed to be a five-story, 237,000 square foot research and laboratory facility, designed to understand, treat and prevent diseases of the nervous system for the UCSF Neuroscience Department and the Keck Institute, each of which is intended to be located within the Series 2010 Project. The Series 2010 Project is expected to include presentation rooms, laboratories, laboratory support, clinical research, a vivarium, academic offices and building amenities, and support areas on the upper floors.

The Series 2010 Project will be developed on the UCSF Mission Bay research campus by a private developer pursuant to a public/private delivery process, the form of which has not previously been used by the University. The University will ground lease the site of the Series 2010 Project to the Borrower pursuant to the Ground Lease, and will leaseback and occupy the Series 2010 Project pursuant to the Space Lease between the Developer and the University. The Developer will design, build and hold title to the Series 2010 Project pursuant to the Sub-Ground Lease. The Series 2010 Project will be conveyed to the University at the end of the term of the Ground Lease pursuant to the terms thereof. See “THE DEVELOPER” and “INVESTMENT CONSIDERATIONS – Implications of Public/Private Delivery Process” for a discussion of the Developer and certain considerations related to the alternative procurement process. See also “THE GROUND LEASE AND THE SUB-GROUND LEASE” and “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER – The Space Lease.”

Construction of the Series 2010 Project is expected to commence in April 2010, with substantial completion expected to occur approximately twenty-four months after the commencement of construction.

The general contractor for the Series 2010 Project is Clark Construction Group-California, L.P., and the architect for the Series 2010 Project is Skidmore Owings & Merrill, LLP.

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.

NON-RE COURSE 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 Series 2010 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 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 SERIES 2010 BONDS

General Description

The Series 2010 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 Series 2010 Bonds will bear interest at the rates shown on the inside cover page of this Official Statement, payable initially on November 15, 2010, 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 Series 2010 Bond, unless such Series 2010 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 Series 2010 Bonds will be in default, in which event such Series 2010 Bond will bear interest from the date to which interest will have been paid in full on such Series 2010 Bond, or unless no interest will have been paid on the Series 2010 Bonds, in which event such Series 2010 Bond will bear interest from the dated date.

Interest on the Series 2010 Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series 2010 Bonds will be issued as fully registered bonds without coupons in denominations of Five Thousand Dollars (\$5,000) and any multiple thereof (“Authorized Denominations”).

Designation of Series 2010B Bonds as “Build America Bonds”

The Infrastructure Bank will issue the Series 2010B Bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (the “Recovery Act”). Pursuant to the Recovery Act, the Infrastructure Bank expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the Infrastructure Bank on the Series 2010B Bonds on or about each interest payment date (the “Direct BABs Payment”). The cash payment does not constitute a full faith and credit guarantee of the United States Government, but under current law is required to be paid by the Treasury under the Recovery Act.

Pursuant to the Indenture, the Infrastructure Bank will pledge all of its rights and interests in Revenues, which includes the Direct BABs Payment, to the Trustee for repayment of principal of and interest on the Series 2010 Bonds and otherwise used in accordance with the Indenture.

Payment of the Series 2010 Bonds

While DTC or its nominee is owner of the Series 2010 Bonds, all payments of principal of, and premium, if any, and interest on the Series 2010 Bonds will be paid to DTC or its nominee by wire transfer. See “Book-Entry Only System for the Series 2010 Bonds” below.

Book-Entry Only System for the Series 2010 Bonds

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2010 Bonds. The ownership of one fully registered Series 2010 Bond for each maturity of each Series set forth on the cover page hereof, in the aggregate principal amount of the Series 2010 Bonds of such Series 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 SERIES 2010 BONDS” for a description of DTC and the Book-Entry Only System.

Redemption

The Series 2010A Bonds

Optional Redemption of Series 2010A Bonds. The Series 2010A Bonds maturing on and after May 15, 2021 are subject to optional redemption prior to their respective stated maturities as a whole or in part on any date on or after May 15, 2020, as set forth in a written Request of the Borrower, equal to the principal amount of the Series 2010A Bonds called for redemption plus accrued interest thereon to the date of redemption, without premium.

The Series 2010B Bonds

Make Whole Optional Redemption of Series 2010B Bonds. The Series 2010B Bonds will be subject to redemption prior to their respective stated maturity dates at the option of Borrower, in whole or in part (and if in part on a pro rata basis with respect to the maturity being redeemed), on any date at a redemption price equal to the greater of:

- (1) 100% of the principal amount of the Series 2010B Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2010B Bonds are to be redeemed, discounted to the date on which such Series 2010B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 30 basis points,

plus, in each case, accrued interest on such Series 2010B Bonds to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Series 2010B Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two (2) business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2010B Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Extraordinary Optional Redemption of Series 2010B Bonds – Extraordinary Event. The Series 2010B Bonds are subject to redemption prior to their respective stated maturity dates at the option of the Borrower, in whole or in part and if in part, with maturities to be designated by the Borrower (and pro rata within a maturity), on any date upon the occurrence of an Extraordinary Event, at a redemption price (the “Extraordinary Redemption Price”) equal to the greater of:

- (1) 100% of the principal amount of the Series 2010B Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2010B Bonds are to be redeemed, discounted to the date on

which such Series 2010B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points,

plus, in each case, accrued interest on such Series 2010B Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds”) pursuant to which Infrastructure Bank’s 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

Amounts transferred to the Trustee in connection with an extraordinary optional redemption will be deposited in the Special Redemption Account of the Redemption Fund.

Mandatory Redemption from Sinking Fund Installments - Series 2010B Bonds. The Series 2010B Bonds maturing on May 15, 2049, are subject to redemption prior to maturity, in part, pro rata, from Mandatory Sinking Fund Installments deposited in the Bond Fund on each May 15, from and after May 15, 2026, at the principal amount of the Series 2010B Bonds to be redeemed, plus accrued interest to the date fixed for redemption, without premium. Sinking Fund Installments for the Series 2010B Bonds maturing on May 15, 2049, will be due on the following dates and in the following amounts:

| Sinking Fund Installment | Due Date (May 15) | Sinking Fund Installment |
|-------------------------------------|------------------------------|-------------------------------------|
| 2026 | | 4,675,000 |
| 2027 | | 4,870,000 |
| 2028 | | 5,080,000 |
| 2029 | | 5,295,000 |
| 2030 | | 5,520,000 |
| 2031 | | 5,750,000 |
| 2032 | | 5,995,000 |
| 2033 | | 6,245,000 |
| 2034 | | 6,510,000 |
| 2035 | | 6,785,000 |
| 2036 | | 7,070,000 |
| 2037 | | 7,370,000 |
| 2038 | | 7,680,000 |
| 2039 | | 8,005,000 |
| 2040 | | 8,340,000 |
| 2041 | | 8,695,000 |
| 2042 | | 9,060,000 |
| 2043 | | 9,440,000 |
| 2044 | | 9,840,000 |
| 2045 | | 10,255,000 |
| 2046 | | 10,685,000 |
| 2047 | | 11,135,000 |
| 2048 | | 11,605,000 |
| 2049* | | 12,095,000 |

* Maturity

In the event that Series 2010B Bonds maturing on May 15, 2049, have been redeemed pursuant to the Indenture, the remaining Sinking Fund Installments will be reduced, in an aggregate amount equal to the principal amount of such Series 2010B Bonds so redeemed, as directed in writing by an Authorized Borrower Representative,

and in the absence of such direction, as proportionately as possible in integral multiples of the applicable Authorized Denominations.

Partial Redemption of the Series 2010 Bonds.

The Series 2010 Bonds will be redeemed only in Authorized Denominations. Upon surrender of any Series 2010 Bond redeemed in part only, the Trustee will exchange the Bond redeemed for a new Series 2010 Bond of like tenor and in an Authorized Denomination without charge to the Owner in the principal amount of the portion of the Series 2010 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 Series 2010 Bond certificate which reflects the date and amount of the reduction in principal amount of said Series 2010 Bond in lieu of surrendering the Series 2010 Bond certificate to the Trustee for exchange. See "Book-Entry Only System for the Series 2010 Bonds" above.

Notice of Redemption; Cessation of Interest.

In the event any of the Series 2010 Bonds are called for redemption, notice thereof identifying the Series 2010 Bonds or portions thereof to be redeemed will be given by the Trustee by mailing a copy of the redemption notice by first class mail (postage prepaid) not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to (i) the Owner of such Series 2010 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 Series 2010 Bonds or any defect therein will not affect the validity of any proceedings for the redemption of any other Series 2010 Bonds for which notice will have been properly given. Each notice of redemption will state the date of such notice and date of issue of the Series 2010 Bonds to be redeemed, the redemption date, the redemption price, the place of redemption (including the name and appropriate address of the Trustee), the principal amount, the CUSIP numbers (if any) of the Series 2010 Bonds to be redeemed and, if less than all, the distinctive certificate numbers of the Series 2010 Bonds to be redeemed and, in the case of Series 2010 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice will further state that the interest on the Series 2010 Bonds designated for redemption will cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Series 2010 Bonds the principal amount thereof to be redeemed and any unpaid interest accrued thereon to the redemption date and will require that such Series 2010 Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

With respect to any notice of optional redemption of Series 2010 Bonds pursuant to the Indenture, unless upon the giving of such notice such Series 2010 Bonds will be deemed to have been paid within the meaning of the Indenture, such notice will state that such redemption will be conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the redemption price of the Series 2010 Bonds to be redeemed, and that if such amounts have not been so received said notice will be of no force and effect and the Infrastructure Bank will not be required to redeem such Series 2010 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 Series 2010 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 Series 2010 Bond not presented. Failure to mail the notices required by this paragraph to any Owner, or any defect in any notice so mailed, will not affect the validity of the proceedings for redemption of any Series 2010 Bonds nor impose any liability on the Trustee.

Effect of Redemption.

Pursuant to the Indenture, if notice of redemption is duly given and moneys for payment of the redemption price of the Series 2010 Bonds (or portions thereof) called for redemption are being held by the Trustee, then on the redemption date designated in such notice, the Series 2010 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 Series 2010 Bonds (or portions thereof) so

called for redemption will cease to accrue, such Series 2010 Bonds will cease to be entitled to any lien, benefit or security under the Indenture, and the Owners of such Series 2010 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 Series 2010 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, the Special Redemption Account or Sinking Account to the purchase of Series 2010 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 Series 2010 Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS

Limited Obligations

THE SERIES 2010 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE INFRASTRUCTURE BANK) OR THE UNIVERSITY BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE INFRASTRUCTURE BANK SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE SERIES 2010 BONDS, OR THE PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE INDENTURE AND THE LOAN AGREEMENT AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE INFRASTRUCTURE BANK) OR THE UNIVERSITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2010 BONDS. THE ISSUANCE OF THE SERIES 2010 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OR THE UNIVERSITY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. NEITHER THE INFRASTRUCTURE BANK NOR THE UNIVERSITY HAS ANY TAXING POWER.

Pledge of Revenues

As security for its obligations under the Series 2010 Bonds, the Infrastructure Bank will enter into the Indenture, pursuant to which it will transfer, assign and set over to the Trustee all of the Revenues and any and all rights and privileges, other than the Reserved Rights, it has under the Loan Agreement, including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest. Any Revenues collected or received by the Infrastructure Bank will be deemed to be held and to have been collected or received by the Infrastructure Bank for the benefit of the Owners of the Series 2010 Bonds will be paid by the Infrastructure Bank to the Trustee. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – 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 Direct BABs Payments and any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund and any account therein), including all Loan Payments, and any other payments made by the Borrower as contemplated by the Loan Agreement, and all payments of Base Rent made by the University 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 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, the Ground Lease and the Sub-Ground Lease and the other funds provided in the Indenture. See “NON-RE COURSE OBLIGATION OF THE BORROWER” herein.

Base Rent and the Base Rent Assignment Agreement

The University 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, premium, if any, and interest on the Series 2010 Bonds. See “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER” herein. The Series 2010 Bonds are being offered on the basis of the financial strength of the University 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 University’s 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 Series 2010 Project and that such obligation is not subject to abatement in the event of damage or destruction of the Series 2010 Project.

The University’s obligation to make Base Rent payments under the Space Lease is an unsecured, general obligation of the University. The Series 2010 Bonds are not direct obligations of the University and none of the property, assets or revenues of the University will be pledged as security for the payment of the Series 2010 Bonds. In addition, the Space Lease does not contain any financial covenants limiting the ability of the University to incur indebtedness (secured or unsecured) or encumber or dispose of its property or any covenants requiring the University to produce revenues at any specified level or to obtain any insurance with respect to its property or operations. For information regarding the University, see “THE UNIVERSITY OF CALIFORNIA AND THE REGENTS.” For considerations related to the University’s payment obligations under the Space Lease and related matters, see “INVESTMENT CONSIDERATIONS – Certain Risks with Respect to the University” and “– Implications of Public/Private Delivery Process.”

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 Series 2010 Bonds, all of its rights to receive the Base Rent paid by the University, 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 Series 2010 Bonds

The payment of the principal of, premium, if any, and interest on the Series 2010 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 University 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 Series 2010 Bonds are non-recourse. See “NON-RE COURSE 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 Series 2010 Project. However, none of the insurance or condemnation proceeds will be pledged or available under the Indenture toward repayment of the Series 2010 Bonds in the event of a casualty or condemnation.

THE DEVELOPER

General

Edgemoor/McCarthy Cook Partners LLC (the “Developer”) is a California limited liability company comprised of two members that each hold a fifty percent ownership interest in the Developer, Edgemoor Real Estate Services I, LLC (“Edgemoor”) and McCarthy Cook Ventures IX, LLC (“MCC”). The Developer was formed in 2008 for the sole purpose of developing and operating the Series 2010 Project. The Developer was selected as the developer through a competitive selection process conducted by the University during 2008.

Pursuant to the terms of the Sub-Ground Lease and the Space Lease, the Developer will design, build and hold title to the Series 2010 Project during the term of the Space Lease (which corresponds with the term of the Series 2010 Bonds and cannot be terminated prior to the repayment of the Series 2010 Bonds). The Developer will also operate the Series 2010 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.” See also “INVESTMENT CONSIDERATIONS – Implications of Public/Private Delivery Process” for a discussion of certain considerations related to the alternative procurement process implemented to select the Developer.

Developer Members

Edgemoor is an affiliate of Clark Construction Group, LLC. Edgemoor is a real estate solutions company with experience in the delivery of public private partnerships. Edgemoor personnel possess experience in utilizing a variety of turnkey approaches in an effort to minimize the exposure of the public entity to project risks. Edgemoor offers real estate advisory and development management services, including site/market feasibility analysis and coordination of planning, design, entitlement, financing, and construction services.

MCC is a vertically integrated real estate investment and operating company dedicated to the investment in, and management of, commercial and mixed-use properties in the western United States, with particular emphasis on the major markets of California. Its executives have over 75 years of combined experience having been involved in numerous large office, residential and mixed-use acquisitions and developments throughout the United States, including leasing and managing the construction of tenant improvements on behalf of UCSF of over 230,000 sq. ft. of office, research/lab and clinic space at the China Basin office complex located near the UCSF Mission Bay campus.

THE UNIVERSITY OF CALIFORNIA AND THE REGENTS

The University of California (the “University”) is a public institution of higher education founded in 1868. It includes ten component campuses, located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. The University also operates five academic medical centers and more than 200 laboratories, research stations, affiliated schools and activity locations. 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 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 financial statements of the University for the fiscal year ended June 30, 2009, appended hereto as Appendix B to this Official Statement, have been audited by PricewaterhouseCoopers LLP (“PWC”), independent certified public accountants. The related report of PWC dated October 14, 2009 is also appended hereto. These financial statements should be read in their entirety. See APPENDIX B—“THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009.”

The information contained in Appendices A and B describes, among other things, funds and assets of the University. None of the funds and assets of the University are pledged as security for the Series 2010 Bonds.

Pursuant to the Space Lease, the University 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, premium, if any, and interest on the Series 2010 Bonds. See “THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 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 graduate campus in the University of California system, and is dedicated to health sciences. UCSF has a \$3 billion annual operating budget. It has 3,000 students, 2,400 residents and post doctoral candidates and nearly 25,000 full and part-time faculty and staff. UCSF also operates one of the top ranked medical centers in the country.

Research Facilities

In 1998, UCSF began development of the Mission Bay campus, a 2.65 million square-foot new research-oriented campus on a 43-acre site in the 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, at which point the full-time campus population is expected to be approximately 9,000 occupants. To date, UCSF has constructed five research buildings, a campus community center, university housing and two parking structures. UCSF is involved in the research, diagnosis, and treatment of many specialties including cancer, heart disease, infertility, neurological disorders, organ transplantation and orthopedics, as well as special services for women and children.

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ESTIMATED SOURCES AND USES OF FUNDS

The schedule below contains the estimated sources and uses of funds resulting from the sale of the Series 2010A Bonds:

SOURCES OF FUNDS:

| | |
|------------------------|-------------------------------|
| Par Amount of Bonds | \$19,670,000.00 |
| Original Issue Premium | <u>1,789,008.50</u> |
| | <u>\$21,459,008.50</u> |

TOTAL SOURCES OF FUNDS

USES OF FUNDS:

| | |
|--|-------------------------------|
| Deposit to the Construction Fund | \$18,611,647.69 |
| Deposit to Operating Fund | 914,615.11 |
| Deposit to Capitalized Interest Account ⁽¹⁾ | 1,656,083.11 |
| Costs of Issuance ⁽²⁾ | <u>276,662.59</u> |
| | <u>\$21,459,008.50</u> |

TOTAL USES OF FUNDS

⁽¹⁾ Funds deposited in the Capitalized Interest Account are calculated to be sufficient, together with certain investments earnings, to pay interest on the Series 2010A Bonds through April 2012.

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

The schedule below contains the estimated sources and uses of funds resulting from the sale of the Series 2010B Bonds:

SOURCES OF FUNDS:

| | |
|---------------------|--------------------------------|
| Par Amount of Bonds | <u>\$188,000,000.00</u> |
| | <u>\$188,000,000.00</u> |

USES OF FUNDS:

| | |
|--|--------------------------------|
| Deposit to the Construction Fund | \$171,682,065.25 |
| Deposit to Capitalized Interest Account ⁽¹⁾ | 13,344,676.16 |
| Costs of Issuance ⁽²⁾ | <u>2,973,258.59</u> |
| | <u>\$188,000,000.00</u> |

TOTAL USES OF FUNDS

⁽¹⁾ Funds deposited in the Capitalized Interest Account are calculated to be sufficient, together with certain investments earnings, to pay interest on the Series 2010B Bonds through April 2012.

⁽²⁾ Includes underwriters' discount, legal fees, printing costs, fees of the Infrastructure Bank, the Trustee, the rating agency 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 Series 2010 Project will be conveyed to the University.

The Ground Lease

On or prior to the date of the issuance of the Series 2010 Bonds, the University, as ground lessor, will lease the Series 2010 Project Site to the Borrower, as ground lessee, pursuant to a Ground Lease Agreement (the “Ground Lease”), for the period commencing on the date of issuance of the Series 2010 Bonds and expiring on the last day of the term of the Space Lease. The Borrower is not required to pay rent to the University under the Ground Lease, except for certain provisional ground rent payments related to the Direct BABs Payment.

Events of default under the Ground Lease include the Borrower’s failure to perform its obligations under the Ground Lease, the Sub-Ground Lease or the Lease Disposition and Development Agreement, and certain bankruptcy actions being taken against the Borrower. If an event of default occurs, the University (i) may cause the Borrower to assign its interest in the Ground Lease, the Sub-Ground Lease, the Space Lease and any additional documents entered into in connection with the Series 2010 Project to an entity of the University’s choosing or (ii) may, but is not obligated to, perform any obligation of the Borrower and seek a judgment against the Borrower for damages.

The Ground Lease cannot be terminated while the Space Lease is in effect. Upon expiration or earlier termination of the Space Lease, the Ground Lease will automatically terminate and the Borrower will surrender the Series 2010 Project to the University in its then existing condition.

The Borrower may not assign its interest in the Ground Lease without the express written consent of the University, which the University may grant or withhold in its sole and absolute discretion.

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

The Sub-Ground Lease

On or prior to the date of issuance of the Series 2010 Bonds, the Borrower, as sub-ground lessor, will sub-lease the Series 2010 Project Site to the Developer, as sub-ground lessee, pursuant to a Sub-Ground Lease Agreement (the “Sub-Ground Lease”), for the period commencing on the date of issuance of the Series 2010 Bonds and expiring on the earlier of (i) the last day of the term of the Space Lease, and (ii) such other date that the Sub-Ground Lease sooner terminates 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. The Base Ground Rent will be paid by the University directly to the Trustee pursuant to the Base Rent Assignment Agreement, on behalf and as assignee of Developer, and also on behalf of and as assignee of Borrower. In addition to Base Ground Rent payments, Developer is obligated to pay certain other rental payments directly to the Borrower or its designee.

Events of default under the Sub-Ground Lease include the Developer’s failure to perform its obligations under the Sub-Ground Lease, the Lease Disposition and Development Agreement or the Space Lease, 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 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 Series 2010 Project and the right to collect any rents) and (ii) collect certain damages from Developer. 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 Series 2010 Project terminate and Developer is required by the Sub-Ground Lease to surrender the Series 2010 Project to the Borrower.

The Developer is prohibited from assigning any of its interest or subleasing the Series 2010 Project (other than pursuant to the Space Lease) without the prior written consent of the Borrower, which cannot be unreasonably

withheld, but which may be subject to reasonable conditions designed to protect the Borrower's interests in the various leases, as well as the tax-exempt character of the Series 2010A Bonds.

See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – THE 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

On or prior to the date of the issuance of the Series 2010 Bonds, the Developer, as lessor, will lease the Series 2010 Project to the University, as lessee, pursuant to a Space Lease (the “Space Lease”), commencing on the date of issuance of the Series 2010 Bonds and expiring on the day that is the later of (i) thirty years after the date of completion of the Series 2010 Project and (ii) the last day of the month when the last Base Rent Payment Date occurs.

Under the terms of the Space Lease, the University will be required to make Base Rent payments to the Developer in an amount equal to the principal of, premium, if any, and interest on the Series 2010 Bonds. In addition to Base Rent payments, the University is obligated to pay certain other rental payments directly to the Developer. The Space Lease provides that the University’s 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 Series 2010 Project and that such obligation is not subject to abatement in the event of damage or destruction of the Series 2010 Project.

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

The Space Lease provides that the University’s 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 cost to repair the building exceeds an amount specified in the Space Lease, then the Developer, within forty-five days of the casualty and with notice to the University and the Borrower, may assign its rights in the Space Lease to the Borrower.

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

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

The Base Rent Assignment Agreement

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 Series 2010 Bonds, all of its rights to receive the Base Rent paid by the University, as lessee under the Space Lease.

The Inducement Letter

Upon issuance of the Series 2010 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 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 Infrastructure Bank to make any payments on or with respect to the Series 2010 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 University such notices at such times as may be required to cause the University to indemnify the Borrower for any amounts so paid by the Borrower pursuant to the University’s obligations to indemnify the Borrower pursuant to the provisions of the Operating Agreement and the Ground Lease.

See “INVESTMENT CONSIDERATIONS – Implications of Public/Private Delivery Process” for a discussion of certain considerations related to the Inducement Letter.

INVESTMENT CONSIDERATIONS

In making investment decisions, investors must rely on their own investigations and evaluation of the merits of a particular investment; however, each investment has particular factors an investor should review and evaluate. The following is a summary, which does not purport to be comprehensive or definitive, of some of the factors an investor may want to consider before purchasing the Series 2010 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 2008-2009.” 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 Series 2010 Bonds. Inclusion of certain factors below is not intended to signify that there are not other investment considerations or risks attendant to the Series 2010 Bonds that are as material to an investment decision with respect to the Series 2010 Bonds that are otherwise described or referred to elsewhere herein.

Limited Security; Non-Recourse Obligations

THE SERIES 2010 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE INFRASTRUCTURE BANK) OR THE UNIVERSITY BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE INFRASTRUCTURE BANK SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE SERIES 2010 BONDS, OR THE PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE INDENTURE AND THE LOAN AGREEMENT AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE INFRASTRUCTURE BANK) OR THE UNIVERSITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2010 BONDS. THE ISSUANCE OF THE SERIES 2010 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR THE UNIVERSITY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. NEITHER THE INFRASTRUCTURE BANK NOR THE UNIVERSITY HAS ANY TAXING POWER.

The Borrower's obligations with respect to the Series 2010 Bonds are non-recourse. See "NON-RE COURSE OBLIGATION OF THE BORROWER" herein.

Certain Risks with Respect to the University

Payments of the Base Rent under the Space Lease will constitute the security for the payment of the principal of, premium, if any, and interest on the Series 2010 Bonds. Payment of such amounts will be dependent upon the financial condition of the University. For information related to the University, see "THE UNIVERSITY OF CALIFORNIA AND THE REGENTS," APPENDIX A—"THE UNIVERSITY OF CALIFORNIA" and APPENDIX B—"THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009." The University's financial information should be reviewed and carefully considered by prospective purchasers of the Series 2010 Bonds as the principal source for repayment of the Series 2010 Bonds.

No assurance can be given that payment in full of the debt service on the Series 2010 Bonds will be made if the University fails to make the required payment under the Space Lease. If the University fails to make the required payments, such failure will have a material adverse affect on payment of principal and interest on the Series 2010 Bonds.

Implications of Public/Private Delivery Process

The Series 2010 Project will be developed by a private developer (see "THE DEVELOPER") through a public/private delivery process. The University selected the Developer through a competitive selection process conducted during 2008. Pursuant to that process, the University received twelve responses to a Request for Proposals. The four top ranked developers then received a Detailed Request for Proposals. The University ultimately selected the Developer to develop the Project. As part of the public/private delivery process, the Developer has selected the contractors and subcontractors to construct the Series 2010 Project.

The public/private delivery process has not been challenged in any court action, and no such court action is threatened as of the date of this Official Statement. Such a challenge to the public/private delivery process, if brought, could raise novel legal issues, as the University has not previously employed the public/private delivery process. Such a legal challenge, if successful, could impact, among other things, the enforceability of the Space Lease and the University's obligation to make Base Rent payments thereunder.

Upon issuance of the Series 2010 Bonds, the Borrower will deliver an Inducement Letter to the Trustee and the Underwriters. See "THE SPACE LEASE, THE BASE RENT ASSIGNMENT AGREEMENT AND THE INDUCEMENT LETTER – The Inducement Letter" herein for a description of the Inducement Letter. The Inducement Letter will provide that if any legal challenge shall be 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 Infrastructure Bank to make any payments on or with respect to the Series 2010 Bonds when due, the Borrower shall pay to the Trustee such amounts at such times as shall be necessary to prevent any such failure, and the Borrower shall provide to the University such notices at such times as may be required to cause the University to indemnify the Borrower for any amounts so paid by the Borrower. The Borrower does not expect to have any source of funds for the payment of such amounts other than funds paid to it by the University pursuant to the University's obligation to indemnify the Borrower.

The University's Office of General Counsel believes that the public/private delivery process complies with applicable California law in all material respects. Moreover, the University and the University's Office of General Counsel have indicated that the University would vigorously defend any challenge to the public/private delivery process.

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 Series 2010 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 Series 2010 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 University. In the event of a bankruptcy by any of the Borrower, the Developer or the University, no assurance can be given that any claim under the Bond Documents or the respective Series 2010 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 University and the Borrower (the Ground Lease), the Borrower and the Developer (the Sub-Ground Lease), and the Developer and the University (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 University, 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 reamortization, 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 Series 2010 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 Series 2010A Bonds

THE SERIES 2010A BONDS ARE NOT SUBJECT TO MANDATORY REDEMPTION AND THE RESPECTIVE RATES OF INTEREST ON THE SERIES 2010A BONDS ARE NOT SUBJECT TO ADJUSTMENT, IF THE INTEREST ON THE SERIES 2010A 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—“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 Series 2010A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Series 2010A Bond proceeds, limitations on the investment earnings of Series 2010A Bond proceeds prior to expenditure, a requirement that certain investment earnings on Series 2010A 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 Series 2010A Bonds as taxable, retroactively to the respective dates of original issuance of each Series of the Series 2010A Bonds affected by any such failure.

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 Series 2010A

Bonds. The Borrower has not sought to obtain a private letter ruling from the IRS with respect to the Series 2010A Bonds, and the opinion of Bond Counsel is not binding on the IRS. See “TAX MATTERS” herein.

NO 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 Series 2010 Bonds or contesting the validity of the Series 2010 Bonds or the proceedings or authority under which the Series 2010 Bonds are to be issued. Neither the creation, organization or 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, the Series 2010A Bond Purchase Agreement, the Series 2010B Bond Purchase Agreement or to secure the Series 2010 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 Series 2010 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 Series 2010A Bond Purchase Agreement, the Series 2010B Bond Purchase Agreement, the Ground Lease, the Sub-Ground Lease or the Inducement Letter to which it is a party 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 University

There is no litigation of any nature pending or, to the knowledge of the University, threatened, against the University to restrain or enjoin issuance, sale, execution or delivery of the Series 2010 Bonds or in any way contesting or affecting the validity of the Series 2010 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 University’s activities. Such matters could, if determined adversely to the University, affect expenditures of the University. 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 University’s ability to pay any amounts due under the Space Lease.

TAX MATTERS

Series 2010A Bonds

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 Series

2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and interest on the Series 2010A Bonds is exempt from State of California personal income taxes. Bond Counsel is also of the opinion that interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes nor is such interest included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expects to deliver an opinion at the time of issuance of the Series 2010 Bonds substantially in the form set forth in APPENDIX D hereto.

To the extent the issue price of any maturity of the Series 2010A Bonds is less than the amount to be paid at maturity of such Series 2010A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2010A Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2010A 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 Series 2010A Bonds is the first price at which a substantial amount of such maturity of the Series 2010A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2010A Bonds accrues daily over the term to maturity of such Series 2010A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2010A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2010A Bonds. Owners of the Series 2010A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2010A Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series 2010A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2010A Bonds is sold to the public.

Series 2010A 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 purchaser’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Series 2010A Bonds. The Infrastructure Bank and the Borrower have made certain representations and has covenanted to comply with certain restrictions designed to ensure that interest on the Series 2010A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2010A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2010A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2010A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2010A Bonds.

Although Bond Counsel is of the opinion that interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes and that the interest on the Series 2010A Bonds is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds may otherwise affect a Bondholder’s federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series 2010A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series 2010A

Bonds. Prospective purchasers of the Series 2010A Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2010A 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 and the Borrower, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Infrastructure Bank and the Borrower have covenanted, however, to comply with the requirements of the Code.

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 Bondholders regarding the tax-exempt status of the Series 2010A 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 Bondholders, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Infrastructure Bank or the Borrower legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2010A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2010A Bonds, and may cause The Infrastructure Bank, the Borrower or the Bondholders to incur significant expense.

Series 2010B Bonds (Taxable - Build America Bonds)

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2010B Bonds that acquire their Series 2010B Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2010B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Series 2010B Bonds pursuant to this offering for the issue price that is applicable to such Series 2010B Bonds (i.e., the price at which a substantial amount of the Series 2010B Bonds are sold to the public) and who will hold their Series 2010B Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Series 2010B Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Series 2010B Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2010B Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series 2010B Bonds, and partners in such partnerships, should

consult their own tax advisors regarding the tax consequences of an investment in the Series 2010B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

For U.S. Holders

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, interest on the Series 2010B Bonds is exempt from State of California personal income taxes. Interest on the Series 2010B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Series 2010B Bonds.

The Series 2010B Bonds are not expected to be treated as issued with original issue discount (“OID”) for U.S. federal income tax purposes because the stated redemption price at maturity of the Series 2010B Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a de minimis amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Series 2010B Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Series 2010B Bonds.

Disposition of the Series 2010B Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the University), defeasance or other disposition of a Series 2010B Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2010B Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2010B Bond which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted tax basis in the Series 2010B Bond (generally, the purchase price paid by the U.S. Holder for the Series 2010B Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Series 2010B Bond, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Series 2010B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

For Non-U.S. Holders

Interest. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” payments of principal of, and interest on, any Series 2010B Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the University through stock ownership and (2) a bank which acquires such Series 2010B Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Series 2010B Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of the Series 2010B Bonds. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the University), defeasance or other disposition of a Series 2010B Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the University), defeasance or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series 2010B Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Series 2010B Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. U.S. information reporting and "backup withholding" requirements apply to certain payments of principal of, and interest on the Series 2010B Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the University), defeasance or other disposition of a Series 2010B Bond, to certain noncorporate holders of Series 2010B Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any Series 2010B Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series 2010B Bond or a financial institution holding the Series 2010B Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Series 2010B Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Bond to the seller of the Series 2010B Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Series 2010B Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Series 2010B Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

CIRCULAR 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the Infrastructure Bank, the Borrower and our tax advisors are (or may be) required to inform you that:

- Any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;
- Any such advice is written to support the promotion or marketing of the Series 2010B Bonds and the transactions described herein (or in such opinion or other advice); and
- Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

UNDERWRITING

The Infrastructure Bank is offering the Series 2010A Bonds through Barclays Capital Inc. (the "Representative"), as representative of itself and Wachovia Bank, N.A.¹ (together, the "Underwriters"), pursuant to a bond purchase agreement (the "Series 2010A Bond Purchase Agreement") among the Infrastructure Bank, the Borrower and the Representative, relating to the Series 2010A Bonds. The Underwriters have agreed to purchase the Series 2010A Bonds at an aggregate price of \$21,342,071.10 (being the principal amount of the Series 2010A Bonds, plus an original issue premium of \$1,789,008.50 and less an underwriters' discount of \$116,937.40). The Underwriters are purchasing the Series 2010A Bonds and intend to offer the Series 2010A Bonds to the original purchasers thereof at the offering prices set forth on the inside cover page of this Official Statement, which offering price may subsequently be changed without any requirement of prior notice. The Underwriters may offer and sell the Series 2010A Bonds to certain dealers and others at a price lower than the initial offering price. The Series 2010A Bond Purchase Agreement provides that the Underwriters collectively will purchase all of the Series 2010A Bonds if any are purchased and that the obligation to make such purchases is subject to certain terms and conditions set forth in the Series 2010A Bond Purchase Agreement.

The Infrastructure Bank is offering the Series 2010B Bonds through the Representative, as representative of itself and Wachovia Bank, N.A., pursuant to a bond purchase agreement (the "Series 2010B Bond Purchase Agreement") among the Infrastructure Bank, the Borrower and the Representative, relating to the Series 2010B Bonds. The Underwriters have agreed to purchase the Series 2010B Bonds at an aggregate price of \$186,553,347.22 (being the principal amount of the Series 2010B Bonds, less underwriters' discount of \$1,446,652.78). The Underwriters are purchasing the Series 2010B Bonds and intend to offer the Series 2010B Bonds to the original purchasers thereof at the offering prices set forth on the inside cover page of this Official Statement, which offering price may subsequently be changed without any requirement of prior notice. The Underwriters may offer and sell the Series 2010B Bonds to certain dealers and others at a price lower than the initial offering price. The Series 2010B Bond Purchase Agreement provides that the Underwriters collectively will purchase all of the Series 2010B Bonds if any are purchased and that the obligation to make such purchases is subject to certain terms and conditions set forth in the Series 2010B Bond Purchase Agreement.

FORWARD-LOOKING STATEMENTS

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

THE ACHIEVEMENT OF 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

¹ Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wachovia Bank, N.A. It is anticipated that on or around March 20, 2010, Wachovia Bank, N.A., will merge into its affiliate, Wells Fargo Bank, N.A. Accordingly, Wells Fargo Bank, N.A. will appear in the final official statement as underwriter, in place of Wachovia Bank, N.A.

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 Standard & Poor's Ratings Services ("S&P") have assigned their municipal bond ratings of "Aa2" and "AA-," respectively, to the Series 2010 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 Series 2010 Bonds.

LEGAL MATTERS

Legal matters incidental to the authorization and issuance of the Series 2010 Bonds are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, 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 Series 2010 Bonds are delivered, for services rendered in connection with the issuance of the Series 2010 Bonds, are contingent upon the sale and delivery of the Series 2010 Bonds.

Certain legal matters will be passed upon for the Infrastructure Bank by its Senior Staff Counsel, Sacramento, California; the University by its Office of General Counsel; Sheppard Mullin Richter & Hampton LLP, counsel to the Borrower; Pillsbury Winthrop Shaw Pittman LLP, counsel to the Developer; and 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 University has covenanted for the benefit of the registered owners and Beneficial Holders of the Series 2010 Bonds to provide certain financial information and operating data relating to the Series 2010 Bonds (the "Annual Report") not later than seven (7) months after the end of the University's Fiscal Year (which Fiscal Year currently ends June 30), commencing with the report for the Fiscal Year ending June 30, 2010, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material 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 material events is summarized in APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS – THE CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters of the Series 2010 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The University has never failed to comply in all material respects with any previous undertaking with regard to the Rule to provide annual reports or notices of material events.

SOURCES OF INFORMATION

Information about UCSF, the University, the Series 2010 Project, and the University in this Official Statement has been obtained from the University. 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 “NO LITIGATION – The Infrastructure Bank” has been obtained from the Infrastructure Bank. The Infrastructure Bank makes no representations or warranties whatsoever with respect to any information contained herein except for information contained in the section entitled “THE INFRASTRUCTURE BANK” and “NO LITIGATION – The Infrastructure Bank.”

Information about the Developer 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.

MISCELLANEOUS

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement that may have been made orally or in writing is to be construed as a contract with the Owners or the beneficial owners of the Series 2010 Bonds.

The Infrastructure Bank and the Borrower have duly authorized the execution, delivery and distribution of this Official Statement in connection with the offering of the Series 2010 Bonds. The Infrastructure Bank makes no representations or warranties whatsoever with respect to any information contained herein except for information contained in the section entitled "THE INFRASTRUCTURE BANK" and "NO LITIGATION – The Infrastructure Bank."

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

By: /s/ Stanton C. Hazelroth
Stanton C. Hazelroth
Executive Director

CAMPUS FACILITIES IMPROVEMENT ASSOCIATION, a California non-profit public benefit corporation

By: /s/ Rudolf Nothenberg
Rudolf Nothenberg
President

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

By: /s/ Peter J. Taylor
Peter J. Taylor
Executive Vice President-Chief Financial Officer,
University of California

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 over 1,873,000 higher education degrees, as of June 30, 2009. 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 more than 200 laboratories, research stations and institutes, affiliated schools, activity locations, and a statewide Division of Agriculture and Natural Resources. Under the Education Abroad Program, the University offers 221 programs at approximately 120 host institutions in approximately 34 countries.

The University is engaged in numerous sponsored research projects, in addition to operating one major laboratory and being a member in a joint venture that manages two other 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 operates a cooperative extension program reaching into nearly every area of the State and numerous public service programs. In connection with the University’s five medical schools and other health science disciplines, the University operates five academic medical centers with a total of 3,124 licensed beds and 2,925 available beds as of June 30, 2009.

The University has a pre-eminent regular teaching faculty of approximately 10,000 members as of October 2009. Fifty-six researchers affiliated with the University have been awarded 57 Nobel Prizes, the pinnacle of achievement for groundbreaking research; 24 of the Nobel Prizes have been won since 1995. Current faculty includes 28 Nobel laureates. No U.S. public university has won more Nobel Prizes than the University. University affiliated researchers have received 58 National Medals of Science – about 10 percent of the medals presented – since Congress created the award in 1959. More than 360 University researchers have been elected to the prestigious National Academy of Sciences. The University has more

members of the National Academy of Sciences than any other college or university. Since the first MacArthur Fellowships were bestowed in 1981, approximately 62 faculty, researchers, artists and others affiliated with the University have been awarded these prestigious \$500,000 grants. Also, more Guggenheim fellowships, approximately 1,460, have been awarded to University faculty than to any other university or college.

As of October 2009, in addition to the teaching faculty, the University employed, on a full-time and part-time basis, approximately 47,000 other academic personnel and approximately 126,750 staff and management personnel.

During the year ended June 30, 2009, the University provided instruction to over 228,000 full time equivalent undergraduate and graduate students. The following table shows average enrollments (computed on the basis of full-time equivalents) of the University by campus for the general campus and for health science students across campuses for fiscal years 2004 to 2009. Further information on University enrollment can be found at <http://budget.ucop.edu/enroll.html>.

**UNIVERSITY OF CALIFORNIA
FULL-TIME EQUIVALENT ENROLLMENTS ⁽¹⁾ FOR FISCAL YEARS 2004 TO 2009**

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Berkeley | 32,441 | 31,995 | 32,347 | 32,875 | 34,229 | 34,732 |
| Davis | 27,147 | 26,779 | 26,737 | 27,311 | 28,199 | 29,021 |
| Irvine | 22,284 | 22,188 | 23,276 | 25,586 | 26,924 | 27,763 |
| Los Angeles | 33,421 | 32,726 | 32,751 | 33,592 | 34,290 | 34,945 |
| Merced | | 18 | 865 | 1,276 | 1,903 | 2,775 |
| Riverside | 15,408 | 15,311 | 15,445 | 16,349 | 17,238 | 18,028 |
| San Diego | 22,219 | 22,847 | 24,095 | 25,760 | 26,641 | 27,487 |
| Santa Barbara | 21,279 | 21,490 | 21,505 | 21,516 | 21,919 | 22,589 |
| Santa Cruz | <u>14,429</u> | <u>14,584</u> | <u>14,891</u> | <u>15,583</u> | <u>16,012</u> | <u>16,809</u> |
| Total General Campus | 188,628 | 187,938 | 191,912 | 199,848 | 207,355 | 214,149 |
| Health Sciences ⁽²⁾ | <u>13,268</u> | <u>13,465</u> | <u>13,456</u> | <u>13,798</u> | <u>13,958</u> | <u>14,176</u> |
| Total University | 201,896 | 201,403 | 205,368 | 213,646 | 221,313 | 228,325 |

⁽¹⁾ Does not include students in self-supporting programs. Includes graduate and undergraduate students, and State supported summer enrollment.

⁽²⁾ Includes San Francisco campus enrollment.

Source: University of California Office of the President (“UCOP”), Budget Office.

INDEBTEDNESS OF THE REGENTS

The Regents of the University of California (“The Regents”) has outstanding various revenue bonds and other obligations, as listed below, maturing from 2010 through 2049. These special obligations are secured by and payable from revenues of the facilities financed, investment income, student fees, rental payments and other revenues. The Regents has established a commercial paper program in an authorized amount of up to \$2 billion. As of

March 1, 2010, \$882,305,000 of commercial paper was outstanding. In addition, The Regents had outstanding principal on loans and private placements with various financial institutions of approximately \$120 million as of March 1, 2010.

The following table lists the outstanding public indebtedness of The Regents as of March 1, 2010.

OBLIGATIONS ISSUED AND OUTSTANDING⁽¹⁾
As of March 1, 2010 (dollars in thousands)

| | Amount Issued | Amount Outstanding |
|--|---------------------|--------------------|
| <u>General Revenue Bonds</u> | | |
| 2003 Series A | \$ 914,270 | \$ 725,260 |
| 2003 Series B | 385,835 | 299,535 |
| 2005 Series C | 252,270 | 244,155 |
| 2005 Series D | 31,160 | 27,900 |
| 2005 Series E | 111,610 | 80,160 |
| 2005 Series F | 446,815 | 423,035 |
| 2005 Series G | 308,450 | 306,565 |
| 2005 Series H | 23,830 | 21,805 |
| 2005 Series I | 20,540 | 20,540 |
| 2007 Series J | 1,123,935 | 1,107,210 |
| 2007 Series K | 241,600 | 231,200 |
| 2008 Series L | 208,025 | 208,025 |
| 2008 Series M | 36,845 | 35,345 |
| 2008 Series N | 3,990 | 3,835 |
| 2009 Series O | 732,630 | 732,630 |
| 2009 Series P | 61,590 | 61,590 |
| 2009 Series Q | 300,620 | 300,620 |
| 2009 Series R | 1,022,275 | 1,022,275 |
| <u>Limited Project Revenue Bonds</u> | | |
| 2004 Series A | 371,590 | 359,060 |
| 2005 Series B | 600,480 | 600,455 |
| 2005 Series C | 15,970 | 5,970 |
| 2007 Series D | 415,355 | 415,355 |
| <u>1991 Series, Multiple Purpose Projects</u> | | |
| Revenue Bonds Series O | 346,020 | 6,820 |
| Revenue Bonds Series P | 19,850 | 2,435 |
| Revenue Bonds Series Q | 364,255 | 153,305 |
| <u>Hospital Revenue Bonds:</u> | | |
| UCLA Medical Center, Series 2004 A | 165,000 | 60,380 |
| UCLA Medical Center, Series 2004 B | 91,165 | 28,775 |
| UC San Diego Medical Center, Series 2000 | 69,000 | 44,535 |
| <u>Medical Center Pooled Revenue Bonds</u> | | |
| 2007 Series A | 441,170 | 441,170 |
| 2007 Series B | 96,155 | 91,215 |
| 2007 Series C | 197,030 | 197,030 |
| 2008 Series D | 322,980 | 309,865 |
| 2009 Series E | 94,755 | 94,755 |
| 2009 Series F | 429,150 | 429,150 |
| Total | \$10,266,215 | \$9,091,960 |

⁽¹⁾ In addition, commercial paper in the amount of \$882,305,000 was outstanding.

Source: UCOP, External Finance

The State Public Works Board of the State of California (the “SPWB”) has issued various lease revenue bonds, maturing from 2010 through 2034, for the purpose of financing or refinancing various facilities for the University. In connection with these lease revenue bonds of the SPWB, The Regents has leased the financed facilities from the SPWB pursuant to facility leases, which require The Regents to pay rental payments in amounts sufficient to pay the principal of and interest on such lease revenue bonds. Such lease rental payments are appropriated annually by the State as a line item for the University’s operating budget. The Regents has appropriated and paid in a timely manner all rental payments due pursuant to its leases with the SPWB, including during periods when adoption of the State Budget was substantially delayed. The following table sets forth the outstanding lease revenue bonds of the SPWB which were issued for the purpose of financing facilities at various campuses of the University as of March 1, 2010:

| State Public Works Board of the State of California | Amount Outstanding (in 000's) |
|---|--|
| <u>Lease Revenue Bonds:</u> | |
| 1993 Series B (Various University of California Projects) | \$18,260 |
| 2002 Series A (UCLA Replacement Hospital) | 129,215 |
| 2003 Series A (UC Davis MIND Institute) | 27,640 |
| 2004 Series A (UC Davis Medical Center Tower II) | 14,330 |
| 2004 Series F (Various University of California Projects) | 121,375 |
| 2005 Series C (Various University of California Institute Projects) | 116,360 |
| 2005 Series D (Various University of California Projects) | 318,785 |
| 2005 Series L (Various University of California Projects) | 144,735 |
| 2006 Series E (University of California Research Project) | 79,870 |
| 2008 Series A (UC Irvine Medical Center Replacement Hospital) | 255,240 |
| 2008 Series B (San Francisco Moffitt and Long Hospital Seismic Upgrade) | 24,785 |
| 2008 Series C (Natural Sciences Unit 2 - McGaugh Hall Expansion) | 14,175 |
| 2009 Series E (Various University of California Projects) | 165,725 |
| 2009 Series F (UC San Diego Medical Center – Hillcrest Seismic) | 41,105 |
| <u>Lease Revenue Refunding Bonds:</u> | |
| 1993 Series A (Various University of California Projects) | 105,815 |
| 1997 Series A (Various University of California Projects) | 119,865 |
| 1997 Series B (Various University of California Projects) | 13,865 |
| 1998 Series B (Various University of California Projects) | 25,370 |
| 1998 Series C (Various University of California Projects) | 9,710 |
| 2001 Series A (Various University of California Projects) | 32,140 |
| 2007 Series A (Various University of California Projects) | 166,125 |
| 2007 Series B (Various University of California Projects) | 49,850 |
| 2007 Series C (Various University of California Projects) | 104,090 |
| Total Outstanding | <hr/> <hr/> \$2,098,430 |

Source: UCOP, External Finance

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

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

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

The members of the Board of Regents and the Officers of The Regents as of March 1, 2010 are listed below. Additional information and a current list of Regents can be obtained at <http://www.universityofcalifornia.edu/regents/contact.html>.

Appointed Regents:

Jesse Bernal⁽¹⁾

Santa Barbara

Hadi Makarechian

Newport Beach

Richard C. Blum

San Francisco

George M. Marcus

Palo Alto

William De La Peña, M.D.

Montebello

Norman J. Pattiz

Culver City

Russell S. Gould

Sacramento

Bonnie Reiss

Santa Monica

Eddie Island

Santa Monica

Frederick Ruiz

Dinuba

Odessa Johnson

Modesto

Leslie Tang Schilling

San Francisco

George Kieffer

Los Angeles

Bruce D. Varner

Riverside

Sherry L. Lansing

Los Angeles

Paul Wachter

Santa Monica

Monica C. Lozano

Los Angeles

Charlene Zettel

Encinitas

⁽¹⁾ Appointed by the Board of Regents.

Ex-Officio Regents:

Arnold Schwarzenegger
Governor of California

Lieutenant Governor⁽¹⁾

John A. Pérez
Speaker of the Assembly

Jack O'Connell
State Superintendent of
Public Instruction

Ronald W. Stovitz
Alumni Regent
(President of the
Alumni Associations of the
University of California)

Yolanda Nunn Gorman
Alumni Regent
(Vice President of the
Alumni Associations of the
University of California)

Mark G. Yudof
President of the
University of California

The Officers of The Regents:

President
Arnold Schwarzenegger
Governor of California

Chairman
Russell S. Gould

Vice Chair
Sherry L. Lansing

Acting Treasurer
Marie N. Berggren

General Counsel
Charles F. Robinson

Secretary and Chief of Staff
Diane M. Griffiths

Chief Compliance and Audit Officer
Sheryl Vacca

⁽¹⁾ The Office of Lieutenant Governor is currently vacant.

FINANCIAL INFORMATION

Financial information for the University is set forth in the University's Annual Financial Report for the fiscal year ended June 30, 2009. See APPENDIX B—"THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009."

INVESTMENTS

As of the most recent quarter ended December 31, 2009, the approximate market values and preliminary investment returns for the six months subsequent to June 30, 2009 are as follows:

| | <u>Approximate Market Value (in 000's)</u> | <u>Investment Return</u> |
|---|--|------------------------------|
| Short Term Investment Pool ⁽¹⁾ | \$ 10,027,835 | 1.4% |
| Total Return Investment Pool | 1,681,906 | 10.9% |
| General Endowment Pool | 5,831,286 | 13.6% |
| University of California Retirement Plan | 36,419,772 | 16.3% |

⁽¹⁾ Also includes loans in the University's Mortgage Origination Program

Source: University of California Office of the President

For additional information concerning the investments of the University, see APPENDIX B—THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009—Note 2.”

BUDGETARY PROCESS

The University presents to the State a single budget for the ten-campus system (“The Regents’ Budget”). For the most part, State funds for the operating budget are appropriated to the University in a lump sum, although amounts for a few programs of particular interest to the State are appropriated by line item. Capital budget funds are appropriated by project, except that funds for minor capital projects are appropriated as a lump sum. Operating funds received from the State are allocated by the President to the campuses and to the Office of the President after consultation with the Chancellors, Vice Presidents, and faculty groups. Because the processes for developing, negotiating, and allocating the operating and capital budgets are somewhat different, they are discussed separately below.

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 advice on budget issues. Further, there is a budget discussion at the monthly meeting of the Council of Chancellors, and budget discussions at the bi-monthly meetings of the Council of Executive Vice Chancellors, at the quarterly 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 University’s annual budget statement. 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 coming year, describing in some detail the need for additional funds. The budget is presented to the Board of Regents each year for approval.

Governor's Budget/Budget Act: The Governor's Budget is released each year around the 10th of January. The Governor's recommended budget is debated during legislative hearings each spring and in June the Legislature is required by California law to send its own recommended budget back to the Governor. At that point, the Governor may delete, but not add, funds. A two-thirds vote by the Legislature can override the Governor's veto of funds. Following the Governor's action, if any, on the Legislature's recommended budget, it becomes final as the "State Budget Act."

Negotiations with the State and Legislative Budget Hearings: Throughout the year, University staff engages in discussion of issues and priorities with staff in the Department of Finance, the Legislative Analyst's Office, and with Legislative committee staff. In February, the Legislative Analyst publishes an analysis of, and recommendations for legislative action on, the Governor's Budget. This analysis is the principal agenda for the legislative hearings, including hearings on the budget recommended for the University by the Governor. The Regents' Budget is heard separately by the Assembly and the Senate. Differences between the two houses are resolved in a conference committee, usually in mid-June, after which the budget is returned to the Governor.

Allocations to Campuses: The President allocates funds to the campuses after consultation with the Chancellors, Vice Presidents, Executive Vice Chancellors, Vice Chancellors for Planning and Budget, and faculty groups. Typically, two allocations are made each year: a preliminary and a final. The first allocates increases or decreases in State funds recommended in the Governor's Budget. This allocation is subject to revision depending on the final outcome in the State Budget Act. Final allocations are usually made in July, after the State Budget Act is signed, at which time fewer changes to the budget base are usually required.

Capital Budget: The capital budget consists of individual major projects (over \$750,000) proposed for funding along with a lump sum for minor capital projects (under \$750,000). The internal process for developing the capital budget is an interactive process, with campuses initially identifying priority projects through their own extensive internal procedures, and submitting schedules and brief descriptions of both State and non-State funded projects. 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. Revised schedules are sent to the campuses for approval or dissent. Campuses then make a second submittal in greater detail for each project. The capital portion of The Regents' Budget is prepared from these more detailed submittals. Major capital projects are approved by the State on a line-item basis; funds for minor capital projects are approved on a lump-sum basis. In addition to State funds, the University also uses gift funds, certain fees and reserves, and other funds available to The Regents for capital projects.

Budget Negotiations for Higher Education: In May 2004, the University and the California State University ("CSU") negotiated a Compact for Higher Education with the Governor's Office (the "Compact") to begin the fiscal recovery of the universities and establish long-term funding stability to enroll students, restore academic and student services programs, provide for moderate, predictable and affordable student fees, and make progress on salaries for staff and faculty. The Compact agreement is similar to the funding of partnership agreements with prior Administrations; it was intended to provide fiscal stability to the University, but also

allow for future planning for enrollment, student fees, financial aid, compensation and restoration of the academic infrastructure (libraries, technology, equipment, and deferred maintenance). The Compact is an agreement with the Governor; funding proposals made pursuant to the Compact are still deliberated each year by the Legislature through the normal budget process.

The University and CSU agreed to accept budget reductions in Fiscal Year 2004-05 to contribute to the solution for resolving the State's fiscal crisis for that fiscal year in return for the Compact that began in Fiscal Year 2005-06 and was to be effective through Fiscal Year 2010-11. This six-year agreement proposed funding for 2.5% annual enrollment growth (5,000 FTES per year for the University) and 3% increases in base funding in Fiscal Years 2005-06 and 2006-07, a 4% increase in Fiscal Year 2007-08, and 5% increases in Fiscal Years 2008-09 through 2010-11. This agreement also assumed undergraduate student fee increases of no more than 8% in the first two years of the Compact, with graduate fees increasing 10%. Following that, undergraduate student fees were to increase moderately, consistent with per capita personal income. However, if in any year the system could demonstrate that its need to maintain quality and access would require higher revenue than that assumed by the Compact, student fees could increase by up to 10% in any given year.

In Fiscal Year 2005-06, the University received a funding increase from the State of 5%, and implemented an increase in student fees for undergraduates of 8%, consistent with the Compact. In Fiscal Year 2006-07, State funding for the University rose by 8.4%, which was consistent with the Compact and included additional amounts to fund nursing and math/science teacher initiatives and to avoid a student fee increase for resident undergraduates and graduates. In Fiscal Year 2007-08, the University's funding from the State rose by 6.4%, again consistent with the Compact, and the University implemented an 8% increase in student fees. As discussed below, due to the weak fiscal condition of the State, the Compact was not funded for Fiscal Year 2008-09 or Fiscal Year 2009-10.

State Actions to Resolve the Fiscal Crisis in FY 2008-09 and FY 2009-10: The State Budget Act for Fiscal Year 2008-09 was signed by the Governor on September 23, 2008—the latest in State history. Thereafter, on-going weak economic conditions resulted in significant revenue shortfalls and the Governor declared a “fiscal emergency” and called special sessions of the Legislature to consider budget actions to address the problems. The Governor’s proposed budget for Fiscal Year 2009-10, released December 31, 2008, estimated there would be a budget gap of more than \$40 billion for the 18-month period ending June 30, 2010. Following lengthy budget negotiations, on February 19, 2009, the State Legislature passed revisions to the State Budget Act for the remainder of Fiscal Year 2008-09, as well as the State Budget Act for Fiscal Year 2009-10 and related legislation, which the Governor signed on February 20, 2009 after making additional line-item vetoes, collectively, the “Special Session budget package.”

The Special Session budget package relied upon a combination of temporary and permanent measures, totaling \$41.6 billion for the remainder of FY 2008-09 and FY 2009-10. The main elements of the budget compromise included about \$14.9 billion in expenditure reductions, \$12.5 billion in revenue adjustments (primarily tax increases), \$7.9 billion in new funding for the State to be received as a result of enactment of the federal American Recovery and Reinvestment Act (“ARRA”), and \$5.4 billion in borrowing. The Governor vetoed an additional

\$957 million of expenditures from the February 2009 budget bill approved by the Legislature, leaving an estimated budget reserve of \$2 billion at June 30, 2010.

Governor's May Revision to the Budget and Additional Legislative Proposals:

Following adoption of the Special Session budget package, the State's fiscal situation continued to worsen. With the continuing deterioration of the State's fiscal situation and the failure of several ballot initiatives in the special May 19, 2009 election that had been intended to help alleviate the budget shortages, the Governor proposed significant additional cuts throughout State government to address an estimated additional \$24 billion statewide shortfall (over and above the actions taken in February to address the fiscal crisis) as part of his May Revision to the budget. Following lengthy negotiations, a compromise budget package was reached by the Governor and the Legislature and was approved by the Legislature on July 24, 2009 and signed by the Governor on July 28, 2009, including the Governor's line-item vetoes of approximately \$489 million. This compromise budget package included approximately \$16 billion in program reductions statewide, and approximately \$8.2 billion in revenue accelerations and fees, significant borrowing provisions, and other technical adjustments such as fund shifts and payment of June, 2010 State payroll and health premiums in July, 2010. No new tax revenue was included in the compromise.

Impact of Special Session and July Budget Packages on University's Budget for FY 2008-09 and FY 2009-10; Student Fee Increases: For the University, reductions for FY 2008-09 included some one-time and some permanent cuts totaling \$832.0 million. The net reduction in State funding during FY 2008-09 was \$115.5 million, after accounting for one-time assistance of approximately \$716.5 million from federal economic stimulus funds. In FY 2009-10, the net reduction was \$637.1 million, when compared against the State-funded budget adopted in September 2008 for FY 2008-09 before the budget cuts began to be implemented. By way of illustration, the \$2.64 billion remaining in the University's base budget from State funds in FY 2009-10 was about 19% less than the \$3.25 billion in State funds appropriated to the University in FY 2007-08.

For the second consecutive fiscal year, the State Budget Act did not fully fund the Compact. In particular, the State Budget Act for FY 2009-10 provided no funding for enrollment growth. The University announced measures to curtail enrollment of freshmen by 2,300 students for the 2009-10 Academic Year, although this reduction was offset somewhat by an increase in transfers from California community colleges of 500 students. Even with this action, the University's enrollment remains more than 15,000 FTE over the budgeted level when the State last provided enrollment funding (2007-08). The Special Session budget package also assumed that The Regents would increase student fees by 9.3% in Fiscal Year 2009-10, which The Regents adopted at its May, 2009 board meeting.

In addition to the State funding cuts of \$637.1 million for 2009-10, the University estimates it faces cost increases of \$368 million, resulting in a budget shortfall of \$1.0 billion. Fee increases already approved for FY 2008-09 and, in May 2009, for FY 2009-10 addressed only about \$211 million of this amount. On July 15, 2009, The Regents approved a declaration of financial emergency and budget reduction actions, effective for one year (September 1, 2009 to August 31, 2010), as a result of reductions in the level of State funding for the University. To address cuts in State funds, the University implemented a furlough/salary reduction plan (\$184 million), campus and systemwide layoffs and programmatic reductions (\$343 million), and other

systemwide savings including debt restructuring (\$75 million). In addition, at the November, 2009 meeting, The Regents approved an additional mid-year fee increase of 15% for undergraduate and graduate professional students, and 2.6% for graduate academic students, to be implemented beginning January, 2010, as well as an additional increase of 15% for all students, to be implemented in summer, 2010. The mid-year fee increase effective January, 2010 will result in another \$66.1 million (net of financial aid) available for helping to fill the budget gap for FY 2009-10.

In addition, over the course of FY 2009-10, the State will be deferring some payments to the University – \$250 million due in July was deferred until October, and another \$750 million was deferred until the end of the fiscal year. Additional deferrals were also negotiated through legislation (AB 5 (8X)) that affect FY 2009-10 and future fiscal years. The University is using its taxable commercial paper program for working capital purposes to mitigate some of the impact of the cash flow deferral.

The State Budget Act also eliminated \$20 million that had been proposed by the Governor in new funding for the State's share of employer retirement contributions. The University is evaluating its options and will pursue restoration of this funding from the State. See "RETIREMENT PLAN FUNDS" below. In addition to the reductions of State funds, the University faces a further gap of \$335 million related to increasing costs that have not been funded by the State (increases in student enrollments, health benefit costs, faculty merits, utility costs, etc.).

Governor's Budget Proposal for FY 2010-2011: In November 2009, The Regents approved a University budget plan that included a request to the State for 2010-11 funding increase of \$913 million. In January 2010, the Governor released his proposal for the 2010-11 budget. Seeking to close a nearly \$20 billion State deficit, the Governor proposed \$8.9 billion in cuts, with health and social services and prisons taking the largest reductions. For UC, the Governor proposed an increase of \$371 million, including restoration of \$305 million in one-time reductions for 2009-10, \$51.3 million for enrollment growth of 5,121 FTE students, and \$14.1 million for annuitant health benefit cost increases. In addition, the Governor's proposal includes additional funds for Cal Grants to cover the recently approved fee increases for University students eligible for the grant program. Notably, both the enrollment growth funding and the Cal Grant funding are tied to the Governor's request to the federal government for \$6.9 billion. If the State does not receive that federal funding, which would come mostly from the U.S. Department of Health and Human Services, funding proposed for enrollment growth and Cal Grants could be in jeopardy.

In addition to his budget proposal, in early January the Governor announced a proposal to amend the State constitution to shift money from prisons to higher education. The proposed amendment would limit the State correctional budget to no more than 7 percent of State general fund revenue and guarantee that the University of California and the California State University together would receive no less than 10 percent of State general fund revenue. This proposed funding shift would begin in the 2011-12 fiscal year and be fully realized in 2014-15. If the amendment funding formula were in place for fiscal year 2009-10, based on the California budget approved last summer, the University would have received up to \$1.7 billion more from the State;

however, the University cannot predict whether such a Constitutional amendment will be placed on the ballot nor whether it would be approved by the State's voters.

As mentioned earlier, in November 2009, coincident with their approval of the University's funding request of the State, The Regents approved a 15% mid-year increase in student fees for 2009-10 and an additional 15% increase for 2010-11. When annualized, the mid-year fee increase (net of financial aid) will generate \$145.3 million. The approved 2010-11 fee increase will provide another \$184.7 million (net of financial aid) to help address the budget shortfall.

The next step in the State budget process requires the Legislature to review the Governor's proposal and approve it or offer revisions. In May, the Governor typically introduces a revised budget that could eliminate or augment the budget proposals made in January. The University is now asking legislators to support the Governor's funding plan and to look for opportunities to fully fund UC's budget request for an additional \$913 million; however, the University cannot predict the outcome of these discussions nor what the final State budget for the University for FY 2010-11 will be.

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 State of California Department of Finance at <http://www.dof.ca.gov>.

EMPLOYER-EMPLOYEE RELATIONS

Under 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 twelve local bargaining units over terms and conditions of employment for more than 70,000 of the University's approximately 160,000 employees statewide.

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 payment on its outstanding indebtedness.

RETIREMENT PLAN FUNDS

The Regents maintains the University of California Retirement Plan (the "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 of California. The Plan includes four membership classifications: members with Social Security, members without Social Security, Safety members (police and firefighters), and Tier Two members.

The Regents' funding policy is to establish annual contributions as a percentage of payroll by using the entry age normal actuarial funding method. The funding policy determines

recommended total contributions starting one year after the date of the actuarial valuation based on the Plan's Normal Cost adjusted by an amortization of any surplus or underfunding. University and member contributions to the Plan had generally not been required since November 1, 1990 for most membership classifications. Member pretax contributions otherwise made to the Plan are redirected to the University of California Defined Contribution Plan on a mandatory basis.

The funding policy contributions related to campuses and medical centers in the July 1, 2009 actuarial valuation for the University's fiscal year beginning July 1, 2010 are \$1.6 billion, which represents 20.4% of covered compensation. The University plans to implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time. The Regents has authorized the initial resumption of shared employer and employee contributions to the Plan beginning in April 2010. At that time, member pretax contributions currently being redirected to the University of California Defined Contribution Plan on a mandatory basis will be directed into the Plan. Employer contributions for fiscal year 2009-10 are anticipated to be approximately \$65 million based upon an assessment rate of 4 percent of covered compensation during the last quarter of 2010. For Fiscal Year 2010-11, The Regents has authorized the continuation of the assessment rate of 4 percent of covered compensation, with an increase in such rate depending on various factors, including availability of funds, the impact of employee contributions on the competitiveness of the University's total remuneration package, and collective bargaining.

In addition, shared employer and employee contributions to the Plan at Lawrence Berkeley National Laboratory will resume at the same rates and on the same timetable as the University's campus and medical center contributions, subject to the terms of the University's contract with the U.S. Department of Energy and subject to collective bargaining, if applicable, for represented members at Lawrence Berkeley National Laboratory. Based upon a contractual agreement, the U.S. Department of Energy is also required to contribute approximately \$80 million to the Plan on behalf of Los Alamos National Laboratory and Lawrence Livermore National Laboratory retirees.

As of July 1, 2009, in the actuarial valuation effective for the fiscal year ending June 30, 2010, the Plan's independent actuary reported that the actuarial accrued liability of the Plan (calculated on an entry age normal cost basis) was approximately \$45.2 billion and the actuarial value of assets was \$42.8 billion. The Plan's net assets held in trust for pension benefits as of June 30, 2008 and June 30, 2009 were approximately \$42.0 billion and \$32.3 billion, respectively. The funded ratio of the Plan (actuarial value of assets divided by actuarial accrued liability) decreased from 103% as of July 1, 2008 to 94.8% as of July 1, 2009 primarily as a result of investment losses and the fact that no contributions were made to the Plan in FY 2008-09. Unless investment returns exceed the assumed annual rate of 7.5%, the funded ratio of the Plan will likely continue to decrease in future fiscal years, due in part to the multi-year strategy under which employer and employee contributions increase gradually over time.

For more information on the University's pension plan funds, see APPENDIX B—THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009", including – "Management's Discussion and Analysis – The University of California Retirement System (UCRS)" and – "Required Supplementary Information."

RETIREE HEALTH PLAN FUNDS

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 families and survivors (retirees) of the University of California and its affiliates. Membership in the Plan is required to become eligible for retiree health benefits.

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. 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 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service.

Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the University's maximum contribution.

As of July 1, 2009, in the actuarial valuation effective for the fiscal year ending June 30, 2010, the Plan's independent actuary reported that the actuarial accrued liability of the Plan for retiree health benefits (calculated on an entry age normal cost basis) for campuses and medical centers was approximately \$14.5 billion and the actuarial value of assets was \$76.9 million. The Plan's net assets held in trust for retiree health benefits as of June 30, 2008 and June 30, 2009 were approximately \$50.8 million and \$74.4 million, respectively.

For more information on the University's pension plan funds, see APPENDIX B—THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009 – Management's Discussion and Analysis – The University of California Retiree Health Benefit Trust (UCRHBT)."

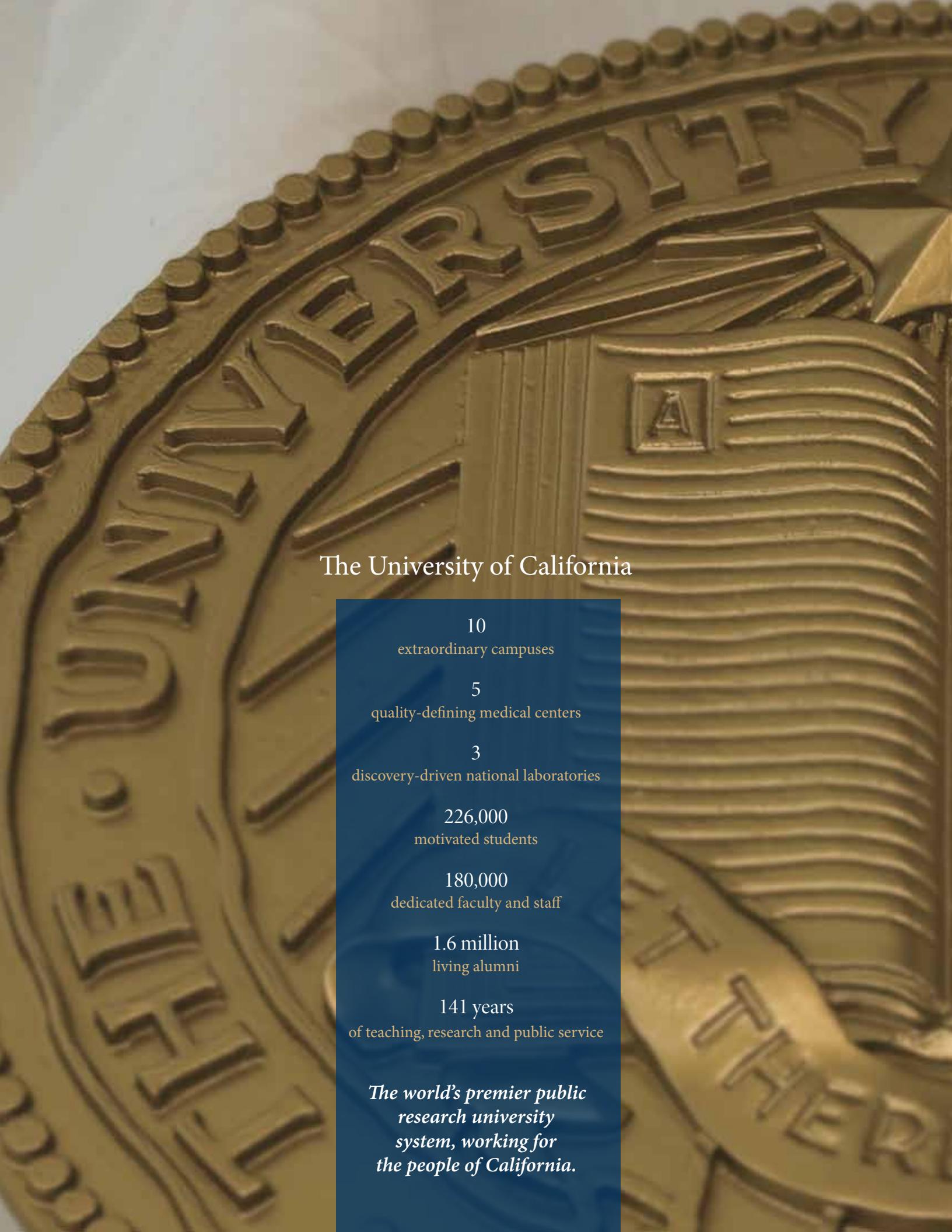
APPENDIX B

THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2008-2009

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UNIVERSITY of CALIFORNIA
Annual Financial Report
2008-2009



The University of California

10

extraordinary campuses

5

quality-defining medical centers

3

discovery-driven national laboratories

226,000

motivated students

180,000

dedicated faculty and staff

1.6 million

living alumni

141 years

of teaching, research and public service

*The world's premier public
research university
system, working for
the people of California.*

LETTER FROM THE PRESIDENT

As president of the University of California, it is an honor — and an adventure — to be part of all the important research, educational advances and public service that make our institution such a valuable partner to California. Whether it's a cure for a disease, a new technology or the next generation of alternative fuels and energy, UC creates an environment where innovation and creativity are encouraged at every level — from freshmen students to Nobel laureates. Each and every day great things happen here. Yet this financial report gives testimony to the challenges that threaten that greatness.



As California struggles through the worst economic downturn since the 1930s, state support for higher education has declined significantly. As a result, UC has had to take drastic actions to protect the quality of our academic programs. For the last year, we have been engaged in aggressive cost-cutting, administrative restructuring and sacrifices from every member of the University community — students, staff and faculty.

Through this period of fiscal uncertainty, we remain determined to preserve the high quality of a UC education and to keep our campuses accessible to every promising student willing to embrace the UC commitment to greatness.

Looking forward, it is clear to me that UC must forge a new vision of itself to survive in a climate of continuing financial stress. In search of that vision, we have launched the UC Commission on the Future. This commission is exploring ways to sustain UC's vital role in California's economic and cultural development against a backdrop of greatly diminished financial resources. UC Board of Regents Chairman Russell Gould and I chair the commission, drawing on experts from UC and outside the University. We are examining research strategies, new funding and educational delivery models and issues of affordability, access and enrollment capacity. I look forward to the recommendations that will come out in 2010 from this groundbreaking self-examination.

UC faces extreme challenges. I have no doubt, however, that we will emerge from these difficulties with a renewed commitment to our educational, research and public service missions. Mediocrity is not an option.

I thank you for your interest and continued support

A handwritten signature in black ink, appearing to read "Mark G. Yudof".

Mark G. Yudof

FACTS IN BRIEF

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|--------------------|------------------|------------------|------------------|------------------|
| STUDENTS | | | | | |
| Undergraduate fall enrollment | 173,078 | 167,693 | 163,302 | 159,066 | 158,431 |
| Graduate fall enrollment | 52,962 | 52,341 | 50,996 | 50,014 | 49,478 |
| Total fall enrollment | 226,040 | 220,034 | 214,298 | 209,080 | 207,909 |
| University Extension enrollment | 307,781 | 291,631 | 294,976 | 302,388 | 332,842 |
| FACULTY AND STAFF (full-time equivalents) | 134,912 | 131,568 | 127,368 | 123,997 | 121,726 |
| SUMMARY FINANCIAL INFORMATION (IN THOUSANDS OF DOLLARS, EXCEPT FOR PARTICIPANT INFORMATION) | | | | | |
| UNIVERSITY OF CALIFORNIA | | | | | |
| PRIMARY REVENUE SOURCES | | | | | |
| Student tuition and fees, net ¹ | \$ 2,096,817 | \$ 1,921,918 | \$ 1,737,597 | \$ 1,662,948 | \$ 1,557,828 |
| Grants and contracts, net | 4,707,584 | 4,514,866 | 4,315,595 | 4,144,576 | 3,976,549 |
| Medical centers, educational activities and auxiliary enterprises, net | 8,100,207 | 7,415,491 | 6,788,289 | 6,221,648 | 5,742,695 |
| State educational, financing and capital appropriations | 2,889,563 | 3,532,333 | 3,243,492 | 2,939,539 | 2,773,037 |
| Private gifts, net | 664,103 | 733,966 | 681,277 | 624,052 | 536,995 |
| Capital gifts and grants, net | 154,998 | 245,305 | 216,783 | 166,502 | 217,218 |
| Department of Energy laboratories | 667,983 | 1,048,580 | 2,188,475 | 4,231,922 | 4,146,261 |
| OPERATING EXPENSES BY FUNCTION | | | | | |
| Instruction | 4,266,250 | 4,126,929 | 3,520,435 | 3,212,552 | 3,046,225 |
| Research | 3,740,604 | 3,495,821 | 3,156,541 | 3,035,949 | 2,916,534 |
| Public service | 491,121 | 482,487 | 420,760 | 400,844 | 371,209 |
| Academic support | 1,492,017 | 1,451,004 | 1,188,204 | 1,139,201 | 1,014,002 |
| Student services | 614,093 | 601,896 | 499,791 | 470,283 | 436,050 |
| Institutional support | 1,054,529 | 1,076,854 | 857,733 | 764,165 | 652,646 |
| Operation and maintenance of plant | 564,781 | 568,585 | 475,638 | 451,882 | 415,096 |
| Student financial aid ² | 458,474 | 425,985 | 406,520 | 363,635 | 369,424 |
| Medical centers | 5,225,712 | 4,757,958 | 4,085,642 | 3,675,271 | 3,423,315 |
| Auxiliary enterprises | 969,652 | 955,701 | 807,271 | 719,551 | 695,310 |
| Depreciation and amortization | 1,197,404 | 1,093,620 | 1,049,008 | 997,023 | 954,878 |
| Department of Energy laboratories | 661,863 | 1,039,330 | 2,169,750 | 4,197,685 | 4,112,077 |
| Other | 105,276 | 78,866 | 86,416 | 88,662 | 72,644 |
| INCREASE (DECREASE) IN NET ASSETS | (2,252,036) | (234,664) | 2,004,157 | 1,422,406 | 1,183,223 |
| FINANCIAL POSITION | | | | | |
| Investments, at fair value | 13,403,572 | 14,828,023 | 14,210,035 | 13,244,165 | 12,074,900 |
| Capital assets, at net book value | 21,276,915 | 19,593,214 | 18,105,332 | 16,665,001 | 15,530,305 |
| Outstanding debt, including capital leases | 10,323,945 | 10,024,982 | 9,363,730 | 8,876,248 | 7,945,285 |
| Obligations for pension and retiree health benefits | 2,445,824 | 1,118,754 | | | |
| Net assets | 19,875,663 | 22,127,699 | 22,404,180 | 20,400,023 | 18,977,617 |
| UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | | | | |
| PRIMARY REVENUE SOURCES | | | | | |
| Private gifts, net | 372,908 | 533,548 | 457,814 | 387,814 | 332,474 |
| PRIMARY EXPENSES | | | | | |
| Grants to campuses | 444,730 | 527,572 | 451,290 | 416,248 | 343,388 |
| INCREASE (DECREASE) IN NET ASSETS | (640,513) | 99,336 | 696,626 | 424,927 | 319,590 |
| FINANCIAL POSITION | | | | | |
| Investments, at fair value | 3,524,622 | 4,158,911 | 4,036,489 | 3,363,998 | 2,950,090 |
| Pledges receivable, net | 401,771 | 420,745 | 450,342 | 429,534 | 426,650 |
| Net assets | 3,830,318 | 4,470,831 | 4,371,495 | 3,674,869 | 3,249,942 |

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

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 assets.

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.

FACTS IN BRIEF (CONTINUED)

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---------------------|--------------------|------------------|------------------|------------------|
| SUMMARY FINANCIAL INFORMATION, CONTINUED (IN THOUSANDS OF DOLLARS, EXCEPT FOR PARTICIPANT INFORMATION) | | | | | |
| UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | | | | | |
| PLAN PARTICIPATION | | | | | |
| Plan membership | 228,550 | 225,225 | 225,623 | 220,307 | 213,242 |
| Retirees and beneficiaries currently receiving payments | 50,051 | 47,575 | 47,682 | 45,442 | 41,477 |
| PRIMARY REVENUE SOURCES | | | | | |
| Contributions | \$ 928,984 | \$ 1,037,898 | \$ 1,061,968 | \$ 1,024,262 | \$ 923,788 |
| Interest, dividends and other investment income, net | 1,506,855 | 1,881,884 | 1,860,845 | 1,718,593 | 1,505,731 |
| Net appreciation (depreciation) in the fair value of investments | (11,324,769) | (4,979,955) | 7,863,875 | 2,140,449 | 3,180,646 |
| PRIMARY EXPENSES | | | | | |
| Benefit payments | 1,834,005 | 1,893,793 | 1,630,244 | 1,375,183 | 1,229,569 |
| Participant and member withdrawals | 630,889 | 910,365 | 939,768 | 791,046 | 463,033 |
| INCREASE (DECREASE) IN NET ASSETS | (11,385,008) | (6,461,435) | 6,732,403 | 2,682,044 | 3,890,517 |
| FINANCIAL POSITION | | | | | |
| Investments, at fair value | 42,352,723 | 52,532,169 | 59,685,467 | 53,866,319 | 51,372,279 |
| Members' defined benefit pension plan benefits | 32,315,483 | 42,099,498 | 48,191,497 | 43,440,054 | 41,935,273 |
| Participants' defined contribution plan benefits | 12,483,051 | 14,084,044 | 14,453,480 | 12,472,520 | 11,295,257 |
| ACTUARIAL INFORMATION (as of the beginning of the year) | | | | | |
| Actuarial value of assets | 43,727,521 | 43,328,050 | 41,872,844 | 40,993,301 | 41,293,050 |
| Actuarial accrued liability | 42,467,742 | 41,335,935 | 40,207,322 | 37,170,862 | 35,034,183 |
| UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST | | | | | |
| PLAN PARTICIPATION | | | | | |
| Plan membership | 144,556 | 141,230 | | | |
| Retirees and beneficiaries currently receiving benefits | 31,473 | 31,247 | | | |
| PRIMARY REVENUE SOURCES | | | | | |
| Contributions | \$ 251,010 | \$ 243,144 | | | |
| Interest, dividends and other investment income, net | 528 | 691 | | | |
| PRIMARY EXPENSES | | | | | |
| Insurance premiums | 225,967 | 191,192 | | | |
| INCREASE IN NET ASSETS | 23,566 | 50,804 | | | |
| FINANCIAL POSITION | | | | | |
| Investments, at fair value | 38,384 | 19,773 | | | |
| Net assets for retiree health benefits | 74,370 | 50,804 | | | |
| ACTUARIAL INFORMATION (as of the beginning of the year) | | | | | |
| Actuarial value of assets | 51,221 | Zero | | | |
| Actuarial accrued liability—campuses and medical centers | 13,302,506 | 12,074,689 | | | |



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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, 2009, with selected comparative information for the years ended June 30, 2008 and 2007. 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 (2007, 2008, 2009, 2010, 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 assets, the statements of revenues, expenses and changes in net assets 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 assets and the statements of changes in plans' and trust's fiduciary net assets, 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 and public service. The University has annual resources of nearly \$20 billion and encompasses ten campuses, five medical schools and medical centers, three 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.

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 offer undergraduate, graduate and professional education; the San Francisco campus is devoted exclusively to the 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 17 health sciences schools on six campuses. They include five medical, two dental, two nursing, two public health 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 and Los Angeles. Also, the Hastings College of the Law in San Francisco is affiliated with the University, although not included in the financial reporting entity.

Agriculture and Natural Resources. The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves a large and diverse agricultural community. The division conducts studies on the Berkeley, Davis and Riverside campuses, on 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 more than 17,000 self-supporting courses statewide and in several foreign countries.

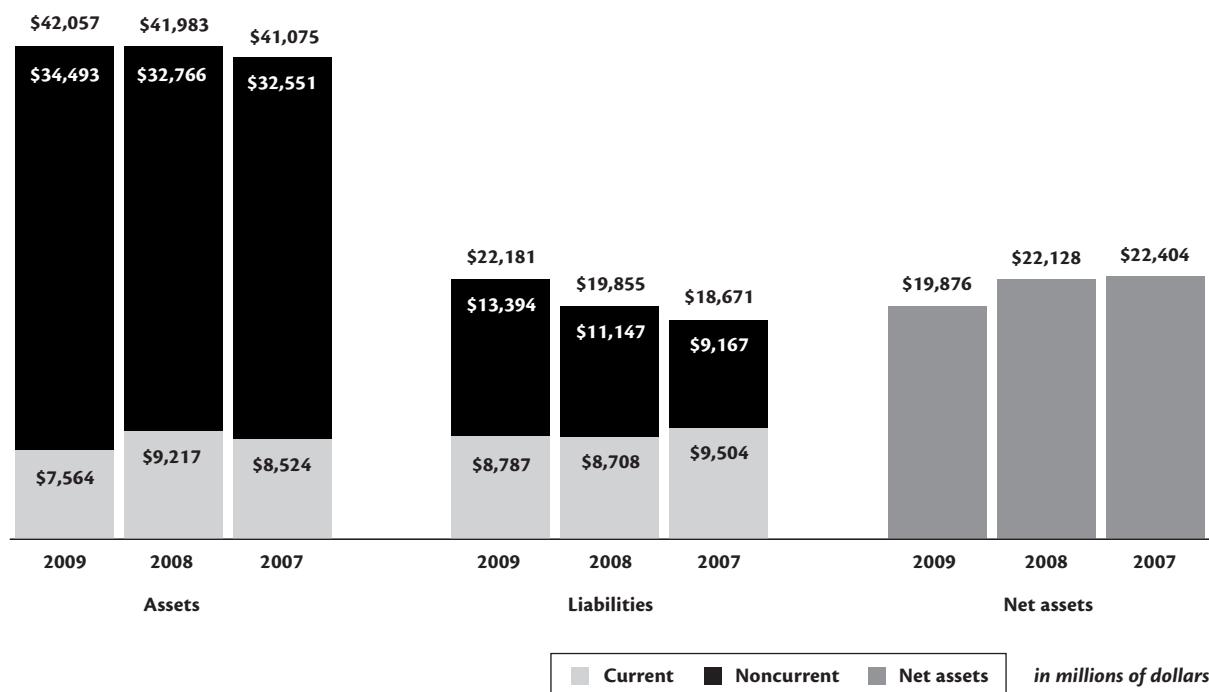
National laboratories. Under contract with the U.S. Department of Energy (DOE), the University operates and manages the Ernest Orlando Lawrence Berkeley National Laboratory (LBNL) in California. The University is a member in two separate joint ventures, Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS), that operate and manage 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.

Adoption of New Accounting Standards

The University's financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was adopted by the University during the year ended June 30, 2009. Statement No. 49 establishes criteria to ascertain whether certain events result in a requirement for the University to estimate the components of any expected pollution remediation costs and determine whether these costs should be accrued as a liability. The costs were estimated using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Previously, pollution remediation costs were accrued only if they were both probable of occurring and could be reasonably estimated. In accordance with Statement No. 49 retrospective application is required. The cumulative effect of this accounting change to establish the initial obligation was to increase liabilities and decrease unrestricted net assets at July 1, 2007 by \$41.8 million. The effect on the University's financial statements for the year ended June 30, 2008 was to reduce the previously reported decrease in net assets in the statement of revenues, expenses and changes in net assets and reduce liabilities and increase unrestricted net assets in the statement of net assets by \$8.7 million.

The University's Financial Position

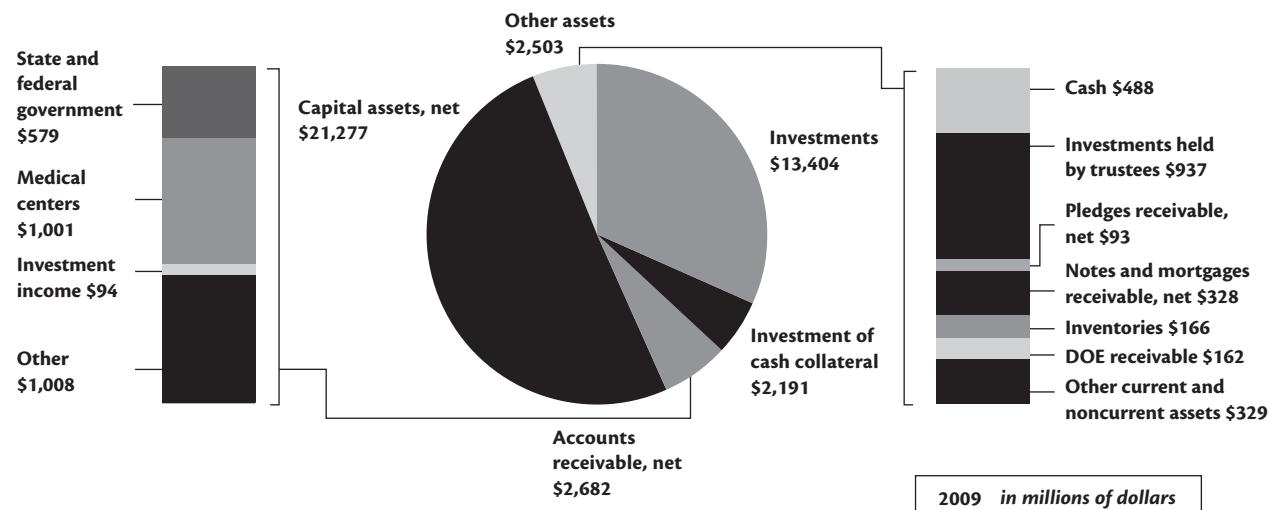


The statement of net assets presents the financial position of the University at the end of each year. It displays all of the University's assets and liabilities. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the University. At June 30, 2009, the University's assets were over \$42 billion, liabilities were over \$22 billion and net assets were nearly \$20 billion, a decrease of \$2.25 billion from 2008. Net assets decreased by \$276 million at the end of 2008 from 2007.

The major components of the assets, liabilities and net assets as of 2009, 2008 and 2007 are as follows:

| | 2009 | 2008 | 2007 |
|---|-----------------|-----------------|-----------------|
| ASSETS | | | |
| Investments | \$ 13,404 | \$ 14,828 | \$ 14,210 |
| Investment of cash collateral | 2,191 | 3,218 | 4,554 |
| Accounts receivable, net | 2,682 | 2,427 | 2,146 |
| Capital assets, net | 21,277 | 19,593 | 18,105 |
| Other assets | 2,503 | 1,917 | 2,060 |
| Total assets | 42,057 | 41,983 | 41,075 |
| LIABILITIES | | | |
| Debt, including commercial paper | 10,989 | 10,025 | 9,364 |
| Securities lending collateral | 2,199 | 3,234 | 4,554 |
| Obligation to UCRP | 69 | | |
| Obligations for retiree health benefits | 2,377 | 1,119 | |
| Other liabilities | 6,547 | 5,477 | 4,753 |
| Total liabilities | 22,181 | 19,855 | 18,671 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 10,822 | 10,035 | 9,102 |
| Restricted: | | | |
| Nonexpendable | 947 | 952 | 920 |
| Expendable | 4,558 | 5,793 | 5,856 |
| Unrestricted | 3,549 | 5,348 | 6,526 |
| Total net assets | \$19,876 | \$22,128 | \$22,404 |

The University's Assets



The University's total assets have grown to \$42.06 billion in 2009, compared to \$41.98 billion in 2008 and \$41.08 billion in 2007. Generally, over the past two years capital assets have increased while investments have declined.

Investments (in millions of dollars)



The University's investments totaled \$13.40 billion at the end of 2009, \$2.04 billion classified as current assets and \$11.37 billion as noncurrent assets. Investments classified as current assets are generally fixed or variable income securities in the Short Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) with a maturity date within one year. Noncurrent investments are generally securities in TRIP, the General Endowment Pool (GEP) or other pools, in addition to fixed or variable income securities in STIP and TRIP with a maturity date beyond one year. The TRIP, established in 2009, is managed to a total return objective and is intended to supplement STIP.

The University's investments, by investment pool, are as follows:

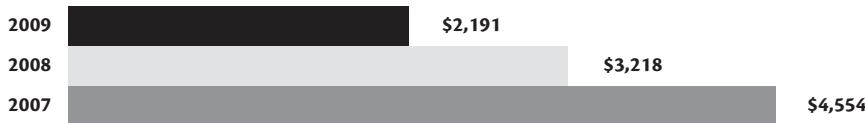
| | (in millions of dollars) | 2009 | 2008 | 2007 |
|-------------------------------|--------------------------|-----------------|-----------------|------|
| STIP | \$ 6,901 | \$ 8,529 | \$ 7,578 | |
| TRIP | 1,445 | | | |
| GEP | 4,721 | 5,845 | 6,176 | |
| Other | 337 | 454 | 456 | |
| University investments | \$13,404 | \$14,828 | \$14,210 | |

Overall, investments decreased by \$1.42 billion in 2009. Investments in STIP decreased by \$1.63 billion, generally resulting from \$1.52 billion exchanged into TRIP and \$446 million of distributions to campuses and other routine timing of cash collections and payments. The decrease in STIP was partially offset by \$246 million of STIP investment income and \$90 million of net appreciation in the fair value of investments. After the initial \$1.52 billion exchange from STIP into TRIP in August 2008, investment activity in TRIP included \$68 million of investment income, \$43 million of which was distributed to participants and \$25 million reinvested in the portfolio, and \$90 million of net depreciation in the fair value of investments. Investments in GEP and other securities declined by \$1.24 billion, generally as a result of \$1.27 billion of net depreciation in the fair value of investments and \$215 million of annual income distributions to be used for operating purposes in 2010. The decrease in GEP and other securities was partially offset by \$152 million of investment income and new permanent endowments of \$11 million.

Investments in 2008 of \$14.83 billion grew from \$14.21 billion in 2007, an increase of \$618 million. Investments in STIP increased by \$951 million primarily due to \$547 million associated with the routine timing of cash collections and payments, particularly \$434 million in additional accrued payroll at June 30, 2008 since the July 1 payroll occurred on a weekday in 2008 and a weekend in 2007; \$360 million of STIP investment income; and \$44 million of net appreciation in the fair value of STIP investments held at the end of 2008. Investments in GEP and other securities declined by \$333 million as a result of \$236 million of net depreciation in the fair value of investments, participant withdrawals of \$94 million and \$210 million of annual income distributions to be used for operating purposes in 2009. The decrease in GEP and other securities was partially offset by \$172 million of investment income and new permanent endowments of \$35 million.

The total investment return based upon unit value for GEP, representing the combined income plus net appreciation or depreciation in the fair value of investments, during 2009 and 2008 was (18.2) percent and (1.5) percent, respectively. The total investment return for TRIP since its inception in August of 2008 was (1.6) percent. The investment return for STIP distributed to participants during 2009 and 2008 was 3.6 percent and 4.7 percent, respectively.

The financial markets, both domestically and internationally, have been volatile in recent times and have affected the valuation of investments. The Regents of the University of California (The Regents) utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

Investment of cash collateral (*in millions of dollars*)

The University participates in a securities lending program incorporating securities owned by both the University and UCRS as a means to augment income. It is managed as a single program. For financial reporting purposes, cash collateral and the associated liability related to securities specifically owned by either the University or UCRS and lent to borrowers are directly reported in the appropriate entity. Cash collateral and the associated liability related to securities in investment pools jointly owned by both the University and UCRS and lent to borrowers are allocated to each entity on the basis of their proportional ownership.

At the end of 2009 and 2008, the investment of cash collateral decreased by \$1.03 billion and \$1.34 billion, respectively, in response to decreased demand from borrowers for certain classes of fixed income securities, decreased availability of certain of the University's equity securities resulting from asset allocation changes and decline in market value.

Accounts receivable, net (*in millions of dollars*)

Accounts receivable are from the state and federal governments, patients for care at the medical centers, investment activity and from others, including those related to private and local government grants and contracts and student tuition and fees.

Receivables increased by \$255 million in 2009. Federal and state government receivables decreased by \$40 million. Receivables increased for state capital appropriations (\$20 million), state educational appropriations (\$11 million) and state grants and contracts (\$8 million) and decreased for federal grants and contracts (\$66 million) and for pending reimbursements from the state for various construction projects (\$13 million). Medical center receivables grew by \$55 million corresponding to growth in patient care, as in the past, although slightly tempered by increased contractual allowances and uncollectible accounts. Investment income receivables increased by \$6 million. Various other receivables collectively grew by \$234 million primarily due to the timing of clearing trades upon the sale of investments (\$304 million), partially offset by lower receivables for private and local grants and contracts (\$25 million) and securities litigation (\$35 million).

In 2008, accounts receivable increased by \$281 million from 2007. Federal and state government receivables decreased by \$28 million primarily as a result of lower receivables attributable to state educational appropriations (\$25 million), pending reimbursements from the state for various construction projects (\$24 million) and federal grants and contracts receivables (\$8 million), partially offset by growth in receivables from state capital appropriations (\$19 million) and state grants and contracts (\$10 million). Medical center receivables grew by \$87 million corresponding to growth in patient revenue. Investment income receivables declined by \$10 million. Various other receivables collectively grew by \$232 million primarily due to the timing of clearing trades upon the sale of investments (\$90 million), additional private and local grants and contracts (\$38 million), educational activities generally related to physician practice plans (\$31 million), insurance rebates due from carriers (\$23 million) and securities litigation (\$35 million).

Capital assets, net (*in millions of dollars*)



Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. Capital assets, net of accumulated depreciation, increased by \$1.68 billion to \$21.28 billion in 2009 and by \$1.49 billion to \$19.59 billion in 2008.

Capital asset activity consists of the following:

| (in millions of dollars) | 2009 | 2008 |
|--|----------------|----------------|
| Capital expenditures: | | |
| Land and infrastructure | \$ 65 | \$ 80 |
| Buildings and improvements | 2,288 | 2,720 |
| Equipment | 519 | 491 |
| Libraries and special collections | 163 | 154 |
| Construction in progress, net | (126) | (836) |
| Capital expenditures | 2,909 | 2,609 |
| Depreciation and amortization expense | (1,197) | (1,094) |
| Asset disposals, net | (28) | (27) |
| Increase in capital assets, net | \$1,684 | \$1,488 |

Capital spending continues at a brisk pace in order to provide the facilities necessary to support the University's mission and for patient care. These facilities include core academic buildings, libraries, student services, housing and auxiliary enterprises, health science centers, utility plants and infrastructure, and remote centers for educational outreach, research and public service. Capital spending increased by 11.5 percent in 2009 from 2008 levels. At the end of 2009, the cost of projects under construction decreased by \$126 million. Construction in progress at the end of the year was \$2.87 billion, including \$1.63 billion for campus projects, \$1.16 billion for health care facilities and \$81 million for a third-party housing project.

Capital spending increased in 2008 by 2.8 percent and increased in 2007 by 17.5 percent. Construction in progress was \$3.0 billion at the end of 2008 and \$3.84 billion at the end of 2007.

Accumulated depreciation and amortization was \$13.41 billion in 2009, \$12.50 billion in 2008 and \$11.71 billion in 2007. Depreciation and amortization expense was \$1.20 billion for 2009, \$1.09 billion for 2008 and \$1.05 billion for 2007.

Disposals in both years generally were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets (in millions of dollars)

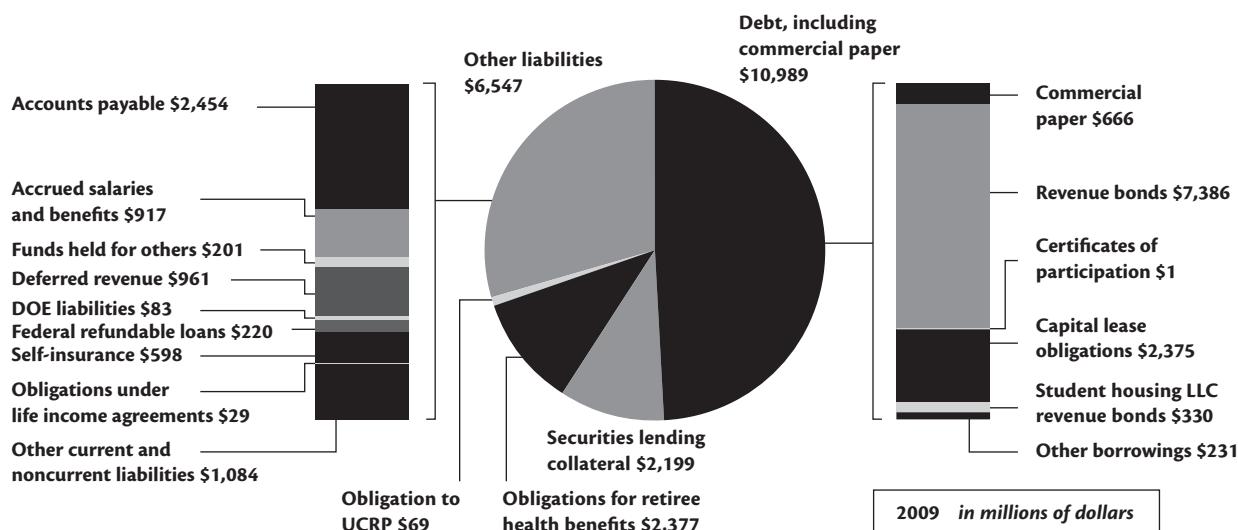


Other assets, including cash, investments held by trustees, pledges receivable, notes and mortgages receivable, inventories and a receivable from the DOE increased by \$586 million in 2009.

Cash awaiting investment in STIP increased by \$380 million in 2009 largely as a result of a \$345 million educational appropriation received by the University from the state of California on June 30. The deposit was not transferred into STIP at year end. Investments held by trustees grew at the end of 2009 by \$147 million. Trustee-held investments associated with self-insurance programs were \$20 million more in 2009 than in 2008. Trustee-held investments associated with the proceeds from long-term debt to be used to finance capital projects under construction grew by \$127 million, largely attributable to a third-party housing project financed by Student Housing LLC Revenue bonds. Net collections of pledges were \$13 million. Overall receivables from the DOE rose by \$48 million consisting of the DOE's share of the obligation for retiree health benefits (\$35 million) and vendor and employee-related operating costs at LBNL (\$13 million). There were moderate increases in certain other areas, such as notes and mortgages receivable (\$9 million), inventories (\$8 million) and various other assets (\$7 million).

In 2008, other assets decreased by \$143 million. Cash awaiting investment in STIP was reduced by \$39 million. Investments held by trustees declined at the end of 2008 by \$3 million. Trustee-held investments associated with self-insurance programs grew by \$34 million as the contributions to the trusts were greater than claim payments made this year. However, trustee-held investments associated with the proceeds from long-term debt to be used to finance capital projects under construction declined by \$37 million. Net collections of pledges were \$16 million. Overall receivables from the DOE dropped by \$124 million consisting of decreases in operating and employee liabilities due to the termination of the LLNL contract in 2008 (\$147 million) and collection of contributions to the University of California Retirement Plan (UCRP) for employees who formerly worked at LANL (\$17 million), although there were increases for the DOE's share of the obligation for retiree health benefits (\$31 million) and vendor and employee-related operating costs at LBNL (\$9 million). There were moderate increases in certain other areas, such as notes and mortgages receivable (\$16 million), inventories (\$15 million) and various other assets (\$8 million).

The University's Liabilities



The University's liabilities grew to \$22.18 billion in 2009, compared to \$19.86 billion in 2008 and \$18.67 billion in 2007, principally as a result of debt issued to finance capital expenditures and obligations for retiree health benefits.

Debt, including commercial paper (*in millions of dollars*)

| | | |
|------|--|----------|
| 2009 | | \$10,989 |
| 2008 | | \$10,025 |
| 2007 | | \$9,364 |

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

The University's debt used to finance capital assets, including \$666 million of commercial paper outstanding at the end of 2009 compared to \$550 million at the end of 2008 and 2007, grew to \$10.99 billion at the end of 2009, compared to \$10.02 billion at the end of 2008 and \$9.36 billion at the end of 2007.

Commercial paper is classified as a current liability. The current portion of long-term debt, excluding commercial paper, decreased to \$467 million in 2009 from \$546 million in 2008, primarily from payment of \$102 million in interim loans from the state for capital projects to be refinanced by the state's issuance of lease revenue bonds. At the end of 2009, the current portion of long-term debt does not include any interim loans from the state.

Outstanding debt increased by \$964 million in 2009 and \$661 million in 2008. A summary of the activity follows:

| (in millions of dollars) | 2009 | 2008 |
|--|---------------|----------------|
| ADDITIONS TO OUTSTANDING DEBT | | |
| General Revenue Bonds | \$ 794 | \$ 249 |
| Limited Project Revenue Bonds | 415 | |
| Medical Center Pooled Revenue Bonds | 520 | |
| Capital leases | 282 | 361 |
| Other borrowings | 103 | 330 |
| Student Housing LLC Revenue Bonds | 221 | |
| Commercial Paper | 116 | |
| Bond premium, net | 22 | 31 |
| Additions to outstanding debt | 1,538 | 1,906 |
| REDUCTIONS TO OUTSTANDING DEBT | | |
| Refinancing and prepayments | (210) | (870) |
| Scheduled principal payments | (329) | (286) |
| Payments on other borrowings | (34) | (74) |
| Other, including deferred financing costs, net | (1) | (15) |
| Reductions to outstanding debt | (574) | (1,245) |
| Net increase in outstanding debt | \$ 964 | \$ 661 |

During 2009, additions to outstanding debt totaled \$1.54 billion, including net bond premiums of \$22 million.

General Revenue Bonds totaling \$794 million with a weighted average interest rate of 5.2 percent were issued in March 2009 to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of \$22 million, were to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds. Proceeds were also used to refund \$46 million of outstanding Multiple Purpose Projects Revenue Bonds, \$15 million of Research Facilities Revenue Bonds, and \$1 million of certificates of participation.

The University entered into a lease-purchase agreement with the state in April 2009, recorded as a capital lease, totaling \$207 million to finance the construction of certain University projects. The state provides financing appropriations to the University to satisfy the annual lease requirement. At the conclusion of the lease term, ownership transfers to the University. In addition to lease-purchase agreements with the state, new capital lease obligations entered into during 2009 for equipment totaled \$76 million.

Other newly originated borrowings in 2009 totaled \$103 million, generally consisting of loans from the state or from commercial banks to provide interim financing as a supplement to commercial paper or for capital projects supported by gifts to be received in the near future.

In prior years, the University entered into ground leases with a legally separate, non-profit corporation that develops and owns student housing projects and related amenities on a University campus through the use of a limited liability corporation (LLC). Under GASB requirements, the financial position and operating results of this legally separate organization are incorporated into the University's financial reporting entity. In 2009, the LLC, through its conduit issuer, issued additional Student Housing LLC Revenue Bonds totaling \$221 million. Proceeds are available to finance the construction of a new student housing project and related amenities.

In July 2008, The Regents authorized an increase in the University's commercial paper program from \$550 million to \$2 billion in order to reduce the number of bank line commitments, provide greater access to tax-exempt financing and preserve flexibility for future interim financing needs. Commercial paper outstanding at the end of 2009 increased by \$116 million.

Reductions to outstanding debt in 2009 were \$574 million, consisting of \$210 million for one-time principal payments for the refinancing or refunding of previously outstanding revenue bonds and certificates of participation (\$62 million) and payments on interim loans from the state as lease revenue bonds were sold (\$148 million); \$329 million for principal payments associated with scheduled debt service on revenue bonds, certificates of participation and capital lease obligations; and \$34 million for scheduled payments on other borrowings.

In October 2008, the University terminated its existing interest rate swap agreement with Lehman Brothers Special Financing Inc. entered into in connection with Medical Center Pooled Revenue Bonds with a notional amount of \$190 million and substituted a new interest rate swap agreement with identical economic terms with a new counterparty. In connection with the swap termination, the University received \$31 million from the new counterparty and made a termination payment of \$25 million to Lehman Brothers Special Financing Inc. These payments were recorded as deferred costs of financing and will be amortized as interest expense over the term of the bonds.

The University's counterparty in the interest rate swap agreement entered into in connection with other Medical Center Pooled Revenue Bonds with a notional amount of \$91 million is Merrill Lynch Capital Services, Inc. In January 2009, Bank of America Corporation completed its acquisition of Merrill Lynch & Co.

Subsequent to 2009, General Revenue Bonds totaling \$1.32 billion, \$1.02 billion of taxable "Build America Bonds" and \$301 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of \$20 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds.

The University's General Revenue Bond ratings are currently affirmed at Aa1 with a stable outlook by Moody's Investors Service and AA by Standard & Poor's with a stable outlook. The University's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds are currently affirmed at Aa2 with a stable outlook by Moody's Investors Service and AA- by Standard & Poor's with a stable outlook.

During 2008, additions to outstanding debt totaled \$1.91 billion, including net bond premiums of \$31 million.

General Revenue Bonds totaling \$249 million with a weighted average interest rate of 4.8 percent were issued in January 2008 to finance certain facilities and projects of the University. Proceeds, including a bond premium of \$12.7 million, are available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds.

Limited Project Revenue Bonds totaling \$415 million with a weighted average interest rate of 5.0 percent were issued in October 2007 to finance certain auxiliary enterprises of the University. Proceeds, including a bond premium of \$18.0 million, are available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds.

Medical Center Pooled Revenue Bonds totaling \$197 million, \$7 million with a fixed interest rate and \$190 million with a variable interest rate, were issued in July 2007 to refinance certain improvements to one of the medical centers. Proceeds

were used to refund \$188 million of Medical Center Revenue Bonds. In connection with the variable interest rate bonds, the University entered into four interest rate swap agreements with a financial institution, such that the variable interest it pays to the bondholders matches the variable payments it receives from the interest rate swaps, resulting in a weighted average interest rate of 4.7 percent paid to the swap counterparty. These swap transactions did not result in any basis or tax risk to the University.

In April 2008, Medical Center Pooled Revenue Bonds totaling \$323 million with a weighted average interest rate of 4.9 percent were issued to refinance certain improvements to another of its medical centers. Proceeds, including a bond premium of \$11 million, were used to refund \$324 million of Medical Center Revenue Bonds and for a swap termination payment of \$7 million.

The University entered into a lease-purchase agreement with the state in April 2008, recorded as a capital lease, totaling \$303 million to finance the construction of certain University projects. The state provides financing appropriations to the University to satisfy the annual lease requirement. At the conclusion of the lease term, ownership transfers to the University. In addition to lease-purchase agreements with the state, new capital lease obligations entered into during 2008 for equipment totaled \$59 million.

Other newly originated borrowings in 2008 totaled \$330 million, generally consisting of loans from the state or from commercial banks to provide interim financing as a supplement to commercial paper or for capital projects supported by gifts to be received in the near future.

Reductions to outstanding debt in 2008 were \$1.25 billion, consisting of \$870 million for one-time principal payments for the refinancing or refunding of previously outstanding Medical Center Revenue Bonds (\$512 million), payments on interim loans from the state as lease revenue bonds were sold (\$206 million) and refinancing of previously outstanding bank loans (\$152 million); \$286 million for principal payments associated with scheduled debt service on revenue bonds, certificates of participation and capital lease obligations; and \$74 million for scheduled payments on other borrowings.

The state of California, through state financing appropriations, provided \$161 million and \$164 million in 2009 and 2008, respectively, of the University's debt service requirements, mainly under the terms of lease-purchase agreements.

Securities lending collateral (*in millions of dollars*)

| | | |
|------|--|---------|
| 2009 | | \$2,199 |
| 2008 | | \$3,234 |
| 2007 | | \$4,554 |

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. Securities lending collateral dropped by \$1.03 billion in 2009 and by \$1.32 billion in 2008. As previously discussed, the amount of the securities lending collateral liability fluctuates directly with securities lending opportunities and the investment of cash collateral.

Obligation to UCRP (*in millions of dollars*)

| | | |
|------|--|------|
| 2009 | | \$69 |
|------|--|------|

The University has financial responsibility for the campuses' and medical centers' obligation to UCRP for pension benefits associated with its defined benefit plan. 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 on behalf of LANL and LLNL retirees based upon a contractual arrangement with the DOE, and is reimbursed by the DOE.

The University's obligation to UCRP is based upon an actuarial determination of the annual pension benefit expense. Campus and medical center contributions during the year toward pension benefits, at rates determined by the University, reduce their share of the obligation to UCRP. Contributions from the DOE to the University during the year reduce the DOE's share of the obligation to UCRP. However, during 2009 and 2008 there were no required employer or employee contributions other than for service credit buybacks.

Obligations to UCRP for pension benefits attributable to campuses and medical centers and the DOE laboratories are as follows:

| <i>(in millions of dollars)</i> | 2009 | 2008 | 2007 |
|---------------------------------|--------------|-------------|-------------|
| Campuses and medical centers | \$ 69 | \$ - | \$ - |
| DOE laboratories | - | - | - |
| Obligation to UCRP | \$ 69 | \$ - | \$ - |

The University did not have any obligations to UCRP for pension benefits prior to 2009.

A summary of the activity that resulted in the obligation to UCRP follows:

| <i>(in millions of dollars)</i> | 2009 | 2008 | 2007 | | | |
|---------------------------------------|------------------------------|------------------|------------------------------|------------------|------------------------------|------------------|
| | CAMPUSES AND MEDICAL CENTERS | DOE LABORATORIES | CAMPUSES AND MEDICAL CENTERS | DOE LABORATORIES | CAMPUSES AND MEDICAL CENTERS | DOE LABORATORIES |
| UCRP benefits expense | \$ 69 | \$ - | \$ 3 | \$ - | \$ 6 | \$ 18 |
| Contributions | - | - | (3) | - | (6) | (18) |
| Increase in obligation to UCRP | \$ 69 | \$ - | \$ - | \$ - | \$ - | \$ - |

Based upon the latest actuarial valuation as of the beginning of 2009, 2008 and 2007, the actuarial accrued liability for campuses and medical centers and the DOE laboratories is as follows:

| <i>(in millions of dollars)</i> | 2009 | 2008 | 2007 |
|--|------------------|------------------|------------------|
| Campuses and medical centers | \$ 34,341 | \$ 31,918 | \$ 29,729 |
| DOE laboratories | 8,127 | 9,418 | 10,479 |
| Total actuarial accrued liability | \$ 42,468 | \$ 41,336 | \$ 40,208 |

The actuarial accrued liability for the DOE laboratories for 2008 and 2009 incorporates the effect of the LANL and LLNL contract terminations.

The actuarial value of UCRP's assets for campuses and medical centers and the DOE laboratories at the beginning of 2009 and 2008 were \$43.73 billion and \$43.33 billion, respectively. As a result of the performance of the financial markets in 2009, the actuarial value of UCRP's assets for campuses and medical centers and the DOE laboratories based upon the valuation prepared as of July 1, 2009 for use in 2010 is expected to decline to approximately \$42.70 billion. UCRP's net assets held in trust, at market value, at the end of 2009 and 2008 were \$32.26 billion and \$42.02 billion, respectively.

Obligations for retiree health benefits *(in millions of dollars)*

| | | |
|------|--|----------|
| 2009 | | \$ 2,377 |
| 2008 | | \$ 1,119 |

The University has financial responsibility for the campuses' and medical centers' obligation for retiree health benefits. LBNL participates in the University's retiree health plans, although the DOE has an ongoing financial responsibility to reimburse the University for LBNL's share of the obligation for retiree health benefits.

Beginning in 2008, the University's obligation for retiree health benefits is based upon an actuarial determination of the annual retiree health benefit expense. Campus and medical center contributions during the year toward retiree health benefits, at rates determined by the University, reduce their share of the obligations for retiree health benefits. The University funds the retiree health expense for campuses and medical centers through UCRHBT based upon a projection of benefits on a pay-as-you-go basis. Contributions from the DOE to the University during the year reduce LBNL's share of the obligations for retiree health benefits.

Obligations for retiree health benefits attributable to campuses and medical centers and LBNL are as follows:

| <i>(in millions of dollars)</i> | 2009 | 2008 |
|--|----------------|----------------|
| Campuses and medical centers | \$ 2,311 | \$ 1,088 |
| LBNL | 66 | 31 |
| Obligations for retiree health benefits | \$2,377 | \$1,119 |

A summary of the activity that resulted in the obligations for retiree health benefits follows:

| <i>(in millions of dollars)</i> | 2009 | 2008 | | | |
|---|------------------------------|--------------|--|------------------------------|--------------|
| | CAMPUSES AND MEDICAL CENTERS | LBNL | | CAMPUSES AND MEDICAL CENTERS | LBNL |
| Retiree health benefit expense | \$ 1,502 | \$ 49 | | \$ 1,356 | \$ 44 |
| Contributions, including implicit subsidy | (279) | (14) | | (268) | (13) |
| Increase in obligation for retiree health benefits | \$1,223 | \$ 35 | | \$1,088 | \$ 31 |

During 2009 and 2008, the University recorded revenue and a receivable from the DOE of \$35 million and \$31 million, respectively, for LBNL's share of the increase in obligations for retiree health benefits.

Based upon the latest actuarial valuation as of the beginning of 2009 and 2008, the actuarial accrued liability for campuses and medical centers and LBNL is as follows:

| <i>(in millions of dollars)</i> | 2009 | 2008 |
|--|-----------------|-----------------|
| Campuses and medical centers | \$ 13,302 | \$ 12,074 |
| LBNL | 498 | 460 |
| Total actuarial accrued liability | \$13,800 | \$12,534 |

The actuarial value of UCRHBT's assets at the beginning of 2009 and 2008 were \$51 million and zero, respectively. The UCRHBT's net assets held in trust, at market value, at the end of 2009 and 2008 were \$74 million and \$51 million, respectively.

At the end of 2009 and 2008, the University has a receivable from the DOE of \$66 million and \$31 million, respectively, toward LBNL's actuarial accrued liability. The receivable will increase over time in accordance with LBNL's share of the obligations for retiree health benefits.

Other liabilities *(in millions of dollars)*

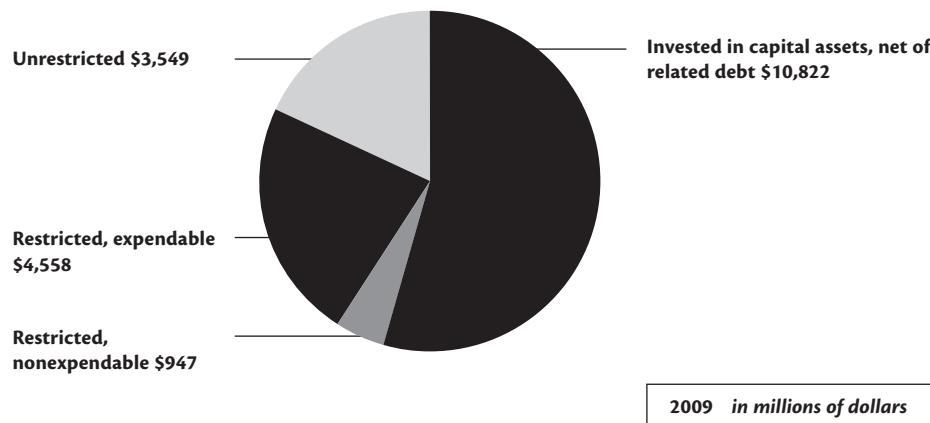
| | | |
|------|--|---------|
| 2009 | | \$6,547 |
| 2008 | | \$5,477 |
| 2007 | | \$4,753 |

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

In 2009, other liabilities rose by \$1.07 billion largely attributable to an amount owed to the state and the timing of investment securities trades. Subsequent to year end, the state of California finalized their State Budget Act that required reversion to the state of a portion of the University's 2009 state educational appropriations. As a result, accounts payable includes a liability to the state totaling \$795 million, primarily \$715 million of state educational appropriation reversions. In addition, securities purchases to be settled after year-end grew by \$384 million. Funds held for others declined by \$69 million with the withdrawal of certain amounts by LLNL and the net depreciation in the fair value of investments. Year-to-year changes in other liabilities were less significant.

Other liabilities grew by \$724 million in 2008, generally as a result of increases in accrued salaries of \$435 million due to the timing of the payment of the July 1 payroll; deferred revenue related to grants and contracts of \$215 million; accounts payable of \$76 million, self-insurance liabilities of \$57 million; and \$104 million of other liabilities, primarily pollution remediation, deposits, compensated absences and federal refundable loans. These increases were partially offset by reductions in DOE laboratories' liabilities of \$140 million for operating and employee liabilities related to the termination of the LLNL contract and other employee benefits of \$15 million.

The University's Net Assets



Net assets represent the residual interest in the University's assets after all liabilities are deducted. The University's net assets are \$19.88 billion in 2009, compared to \$22.13 billion in 2008 and \$22.40 billion in 2007. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted, nonexpendable; restricted, expendable; and unrestricted.

Invested in capital assets, net of related debt (in millions of dollars)



The portion of net assets 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, is \$10.82 billion in 2009, compared to \$10.03 billion in 2008 and \$9.10 billion in 2007. The increase represents the University's continuing investment in its physical facilities in excess of the related financing and depreciation expense.

Restricted, nonexpendable (*in millions of dollars*)

Restricted, nonexpendable net assets include the corpus of the University's permanent endowments and the estimated fair value of certain planned giving arrangements. In 2009, new permanent endowments of \$11 million were offset by the unrealized depreciation on investments. Substantially all of the increase in 2008 was from new permanent endowment gifts.

Restricted, expendable (*in millions of dollars*)

Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets 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. In 2009, net unrealized depreciation in the fair value of investments related to endowments and funds functioning as endowments totaled \$1.01 billion. In addition, restricted expendable net assets declined in areas such as support received for capital projects (\$101 million) and endowments and funds functioning as endowments, generally a result of distributions for operating purposes. In 2008, net unrealized depreciation in the fair value of investments resulted in a \$268 million decline in the value of endowments and funds functioning as endowments, although funds functioning as endowments and annuity and life income funds from new support grew by \$77 million; and gifts and grants grew by \$63 million.

Unrestricted (*in millions of dollars*)

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Unrestricted net assets were reduced by the unfunded retiree health benefit costs totaling \$1.22 billion and \$1.09 billion in 2009 and 2008, respectively, along with the \$715 million reduction in the University's state educational appropriations in June 2009. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are allocated for academic and research initiatives or programs, for capital purposes or for other purposes. Unrestricted net assets include funds functioning as endowments of \$1.08 billion and \$1.24 billion in 2009 and 2008, respectively.

The University's Results of Operations

The statement of revenues, expenses and changes in net assets is a presentation of the University's operating results. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

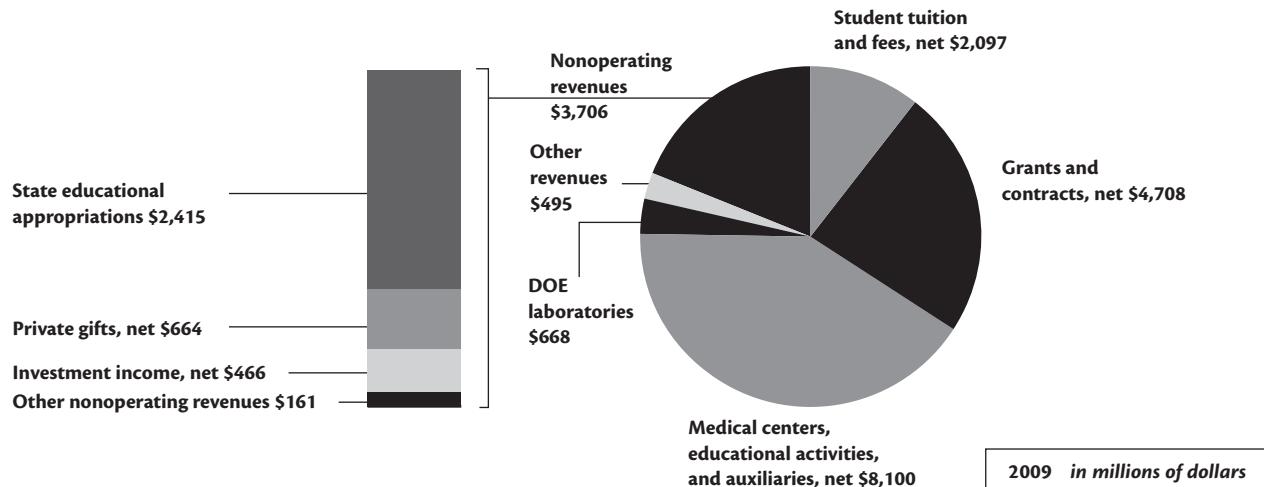
A summarized comparison of the operating results for 2009, 2008 and 2007, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

(in millions of dollars)

| | 2009 | | | 2008 | | | 2007 | | |
|--|-------------------------|-----------------------|------------------------|--------------------------|-----------------------|------------------------|--------------------------|-----------------------|------------------------|
| | OPERATING | NONOPERATING | TOTAL | OPERATING | NONOPERATING | TOTAL | OPERATING | NONOPERATING | TOTAL |
| REVENUES | | | | | | | | | |
| Student tuition and fees, net | \$ 2,097 | | \$ 2,097 | \$ 1,922 | | \$ 1,922 | \$ 1,738 | | \$ 1,738 |
| State educational appropriations | | \$ 2,415 | 2,415 | | \$ 2,975 | 2,975 | | \$ 2,793 | 2,793 |
| Grants and contracts, net | 4,708 | | 4,708 | 4,515 | | 4,515 | 4,316 | | 4,316 |
| Medical centers, educational activities and auxiliary enterprises, net | 8,100 | | 8,100 | 7,415 | | 7,415 | 6,788 | | 6,788 |
| Department of Energy laboratories | 668 | | 668 | 1,049 | | 1,049 | 2,188 | | 2,188 |
| Private gifts, net | | 664 | 664 | | 734 | 734 | | 681 | 681 |
| Investment income, net | | 466 | 466 | | 532 | 532 | | 508 | 508 |
| Other revenues | 495 | 161 | 656 | 558 | 164 | 722 | 435 | 157 | 592 |
| Revenues supporting core activities | 16,068 | 3,706 | 19,774 | 15,459 | 4,405 | 19,864 | 15,465 | 4,139 | 19,604 |
| EXPENSES | | | | | | | | | |
| Salaries and benefits | 13,212 | | 13,212 | 12,401 | | 12,401 | 10,313 | | 10,313 |
| Scholarships and fellowships | 451 | | 451 | 428 | | 428 | 401 | | 401 |
| Utilities | 310 | | 310 | 298 | | 298 | 287 | | 287 |
| Supplies and materials | 2,210 | | 2,210 | 2,102 | | 2,102 | 1,910 | | 1,910 |
| Depreciation and amortization | 1,198 | | 1,198 | 1,094 | | 1,094 | 1,049 | | 1,049 |
| Department of Energy laboratories | 662 | | 662 | 1,039 | | 1,039 | 2,170 | | 2,170 |
| Interest expense | | 356 | 356 | | 400 | 400 | | 385 | 385 |
| Other expenses | 2,799 | 29 | 2,828 | 2,793 | 25 | 2,818 | 2,594 | (11) | 2,583 |
| Expenses associated with core activities | 20,842 | 385 | 21,227 | 20,155 | 425 | 20,580 | 18,724 | 374 | 19,098 |
| Income (loss) from core activities | <u>\$(4,774)</u> | <u>\$3,321</u> | <u>(1,453)</u> | <u>\$ (4,696)</u> | <u>\$3,980</u> | <u>(716)</u> | <u>\$ (3,259)</u> | <u>\$3,765</u> | <u>506</u> |
| OTHER NONOPERATING ACTIVITIES | | | | | | | | | |
| Net (depreciation) appreciation in fair value of investments | | | (1,278) | | | (192) | | | 949 |
| Income (loss) before other changes in net assets | | | <u>(2,731)</u> | | | <u>(908)</u> | | | <u>1,455</u> |
| OTHER CHANGES IN NET ASSETS | | | | | | | | | |
| State capital appropriations | | | 313 | | | 394 | | | 293 |
| Capital gifts and grants, net | | | 155 | | | 245 | | | 217 |
| Permanent endowments | | | 11 | | | 35 | | | 39 |
| Increase (decrease) in net assets | | | <u>(2,252)</u> | | | <u>(234)</u> | | | <u>2,004</u> |
| NET ASSETS | | | | | | | | | |
| Beginning of year | | | 22,128 | | | 22,404 | | | 20,400 |
| Effect of adoption of GASB Statement No. 49 | | | | | | (42) | | | |
| Beginning of year, as restated | | | | | | 22,362 | | | |
| End of year | | | <u>\$19,876</u> | | | <u>\$22,128</u> | | | <u>\$22,404</u> |

Revenues Supporting Core Activities

Categories of both operating and nonoperating revenue that supported the University's core activities in 2009 are as follows:



Revenues to support the University's core activities, including those classified as nonoperating revenues, were \$19.77 billion, \$19.86 billion and \$19.60 billion in 2009, 2008 and 2007, respectively. These diversified sources of revenue decreased in 2009 by \$90 million. Revenues increased in 2008 by \$260 million.

State of California 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.

Student tuition and fees, net (*in millions of dollars*)

| | | |
|------|--|---------|
| 2009 | | \$2,097 |
| 2008 | | \$1,922 |
| 2007 | | \$1,738 |

Student tuition and fees revenue, net of scholarship allowances, increased by \$175 million and \$184 million in 2009 and 2008, respectively. Scholarship allowances were \$566 million in 2009, \$507 million in 2008 and \$461 million in 2007. The new fee revenue over the past several years has generally been necessitated by growth in the demand for resources that has outpaced state educational appropriations. Consistent with past practices, approximately one-third of the revenue generated from these fee increases was used for financial aid to mitigate the impact on needy students.

In 2009, enrollment grew by 2.7 percent. Resident undergraduate and graduate student fees increased by 7.4 percent. Professional school fee increases varied by discipline, although most degree program fees rose substantially. In addition to the resident student fees, nonresident undergraduate and graduate students pay tuition. Tuition increased by 5 percent for both nonresident undergraduate and graduate students.

In 2008, enrollment also grew by 2.7 percent. Resident undergraduate fees increased by 7 percent, graduate student fees by 7 percent and most professional school fees by between 7 and 10 percent. Tuition increased by 5 percent for nonresident undergraduate students.

In 2007, enrollment grew by 2.5 percent. Resident undergraduate and graduate student fees were not increased in 2007. Certain professional school student fees increased by modest amounts. Nonresident undergraduate and graduate student tuition increased by nearly 5 percent.

State educational appropriations (*in millions of dollars*)



Educational appropriations from the state of California of \$2.42 billion decreased in 2009 by \$560 million. The decline in educational appropriations is a direct result of the particularly weak economic conditions in California. State resources for enrollment growth, faculty and staff increases, and other inflationary cost increases were not available, leading to an increase in student tuition and fees. After declining to \$2.46 billion in 2005, state educational appropriations gradually increased in prior years to \$2.57 billion in 2006, \$2.79 billion in 2007 and \$2.98 billion in 2008.

Grants and contracts, net (*in millions of dollars*)



Revenue from federal, state, private and local government grants and contracts—including an overall facilities and administration cost recovery of \$825 million, \$779 million and \$743 million in 2009, 2008 and 2007, respectively—increased in both 2009 and 2008 as follows:

| (<i>in millions of dollars</i>) | 2009 | 2008 | 2007 |
|---|----------------|----------------|----------------|
| Federal | \$ 2,983 | \$ 2,911 | \$ 2,881 |
| State | 509 | 492 | 449 |
| Private | 1,017 | 912 | 804 |
| Local | 199 | 200 | 182 |
| Grants and contracts net revenue | \$4,708 | \$4,515 | \$4,316 |

In 2009, federal grants and contracts revenue, including the federal facilities and administration cost recovery of \$622 million, grew by \$72 million, or 2.5 percent. This revenue represents support from a variety of federal agencies as indicated below:

| (<i>in millions of dollars</i>) | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| Department of Health and Human Services | \$ 1,728 | \$ 1,689 | \$ 1,682 |
| National Science Foundation | 421 | 420 | 422 |
| Department of Education | 304 | 265 | 240 |
| Department of Defense | 197 | 174 | 164 |
| National Aeronautics and Space Administration | 86 | 82 | 84 |
| Department of Energy (excluding national laboratories) | 77 | 75 | 76 |
| Other federal agencies | 170 | 206 | 213 |
| Federal grants and contracts net revenue | \$2,983 | \$2,911 | \$2,881 |

State grants and contracts revenue was up by \$17 million, or 3.5 percent. Although revenue from private grants and contracts at the campuses can be volatile from year to year, overall it rose by \$105 million (11.5 percent), due primarily to a growing number of awards. Local government grants and contracts revenue declined by \$1 million.

In 2008, overall revenue from federal, state, private and local government grants and contracts increased by \$199 million, or 4.6 percent. Federal grants and contracts revenue grew by \$30 million, or 1.0 percent; state grants and contracts revenue increased by \$43 million, or 9.6 percent; private grants and contracts revenue grew by \$108 million, or 13.4 percent, and local government grants and contracts revenue grew by \$18 million, or 9.9 percent.

Medical centers, educational activities and auxiliary enterprises, net *(in millions of dollars)*



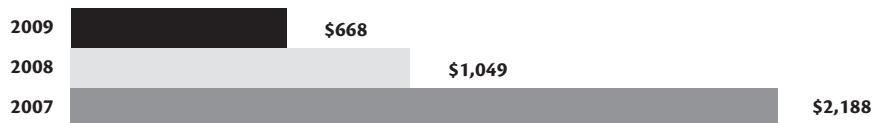
Revenue from medical centers, educational activities and auxiliary enterprises increased by \$685 million, or 9.2 percent, in 2009. In 2008, these revenues increased \$627 million, or 9.2 percent, from 2007. Revenues for each activity are as follows:

| <i>(in millions of dollars)</i> | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| Medical centers, net | \$ 5,496 | \$ 4,917 | \$ 4,526 |
| Educational activities, net | 1,460 | 1,376 | 1,250 |
| Auxiliary enterprises, net | 1,144 | 1,122 | 1,012 |
| Medical centers, educational activities and auxiliary enterprises revenues, net | \$8,100 | \$7,415 | \$6,788 |

Medical center revenue, net of allowances for uncollectible amounts, increased by \$579 million and \$391 million in 2009 and 2008, respectively. The revenue growth in both years is primarily due to renegotiated contracts, rate adjustments, improved reimbursement rates and a modest increase in patient activity (a 0.7 percent and 1.6 percent increase in patient days for 2009 and 2008, respectively; also outpatient visits grew by 0.5 percent and 4.3 percent for 2009 and 2008, respectively).

Revenue from educational activities, primarily physicians' professional fees, net of allowances for doubtful accounts, grew by \$84 million in 2009, or 6.1 percent, and by \$126 million, or 10.1 percent, in 2008 and is generally associated with an expanded patient base and higher rates.

Revenue from auxiliary enterprises, net of scholarship allowances, grew by \$22 million in 2009, or 2.0 percent, and by \$110 million in 2008, or 10.9 percent, generally as a result of fee increases to support new and remodeled facilities in both years and student demand for additional room capacity in new residence halls in 2008. Scholarship allowances, substantially all for housing expenses, were \$142 million in 2009, \$127 million in 2008 and \$119 million in 2007.

DOE laboratories (*in millions of dollars*)

The national laboratories operate on federally financed budgets. Revenue in 2009, 2008 and 2007 is as follows:

| (<i>in millions of dollars</i>) | 2009 | 2008 | 2007 |
|--|--------------|----------------|----------------|
| Lawrence Berkeley National Laboratory | \$ 619 | \$ 546 | \$ 518 |
| Lawrence Livermore National Laboratory | | 447 | 1,611 |
| DOE revenue related to pension benefits | | | 17 |
| DOE revenue related to retiree health benefits | 49 | 56 | 42 |
| DOE laboratories revenue | \$668 | \$1,049 | \$2,188 |

DOE laboratories' revenues decreased by \$381 million in 2009 and declined by \$1.14 billion in 2008.

At LBNL, revenue in 2009 increased across all the laboratory's divisions, most notably in Computer Science (\$17 million), Physical Bioscience (\$12 million) and Environmental Energy (\$7 million). In 2008, revenue increased in Physical Sciences and Materials Sciences primarily to support the Joint BioEnergy Institute and Materials Sciences Molecular Foundry, respectively.

LLNL revenue was reported in the University's financial statements through September 30, 2007, the date the University's contract to directly manage and operate LLNL terminated. The contract transitioned to LLNS effective October 1, 2007.

The DOE has an ongoing financial responsibility for all current and future pension benefit and retiree health expenses incurred at any of the national laboratories. The University recognizes the DOE's financial responsibility by recording DOE revenue to the extent there are any pension or retiree health expenses attributable to the DOE laboratories.

Private gifts, net (*in millions of dollars*)

Gifts may be made directly to the University or through one of the University's campus foundations. Private gifts, substantially all restricted as to use, decreased by \$70 million in 2009. Grants from the campus foundations totaling \$445 million, recorded as private gifts by the University, decreased by \$83 million, although other private sources were up by \$13 million. Until 2009, gifts received from the campus foundations had generally increased. Private gifts in 2008 of \$734 million were substantially above the \$681 million in 2007.

In addition to private gifts for operating purposes, gifts are also received for capital purposes—recorded as capital gifts and grants—and for permanent endowments. The combined gifts for operating, capital and permanent endowment purposes totaled \$830 million in 2009, \$1.01 billion in 2008 and \$937 million in 2007.

Investment income, net (in millions of dollars)



Investment income, principally consisting of \$234 million from STIP, \$66 million from TRIP and \$138 million from endowments invested in GEP, decreased in 2009 by \$66 million. Investment income from STIP declined by \$110 million in 2009, partially as a result of \$1.52 billion of STIP investments exchanged in August 2008 into the new TRIP, and grew by \$4 million in 2008. The STIP return distributed to participants was 3.6 percent in 2009 and 4.7 percent in 2008. TRIP income for the year was \$66 million. Endowment income dropped by \$21 million in 2009 and by \$3 million in 2008. A reduction in interest rates during the year resulted in lower relative levels of both gross income and rebates.

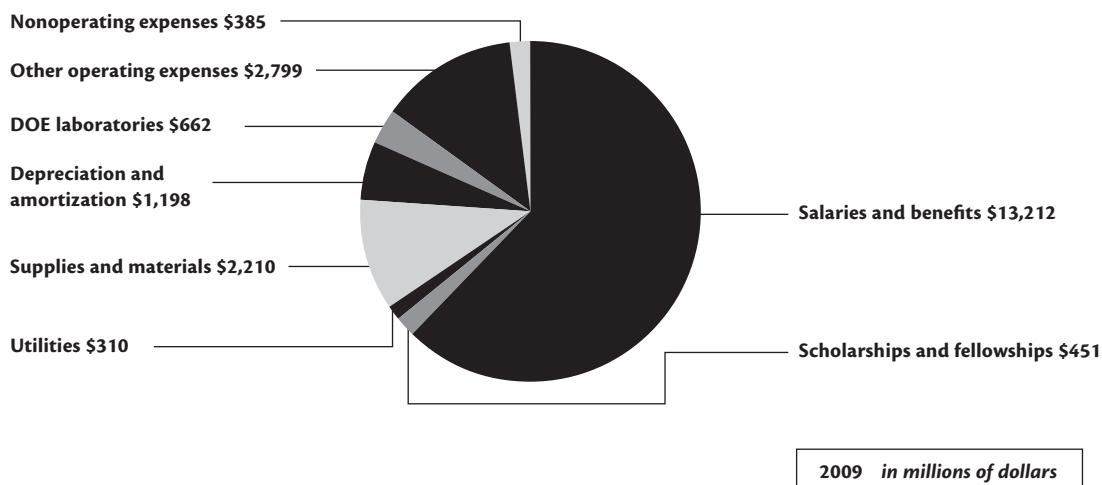
Other revenues (in millions of dollars)



Other revenues are from a variety of sources, including state financing appropriations and patent royalty income. Collectively, these revenues dropped by \$66 million in 2009 after growing by \$130 million in 2008. Patent royalty income declined in 2009 by \$45 million after increasing in 2008 by \$50 million. State financing appropriations were less in 2009 by \$3 million after growing by \$7 million in 2008. Compensation to the University as a member of LANS and LLNS totaled \$28 million in 2009 and \$25 million in 2008.

Expenses Associated with Core Activities

Categories of both operating and nonoperating expenses related to the University's core activities in 2009 are as follows:



Expenses associated with the University's core activities, including those classified as nonoperating expenses, were \$21.23 billion, \$20.58 billion and \$19.10 billion in 2009, 2008 and 2007, respectively. Expenses increased in 2009 by \$647 million. Salaries, benefits and other operating expenses outpaced the reduction in DOE laboratory expenses. Expenses increased in 2008 by \$1.48 billion. Major changes in 2008 included retiree health benefit costs brought about by the implementation of GASB Statement No. 45 of \$1.36 billion that were partially offset by a \$1.13 billion reduction in DOE laboratory expenses from termination of the University's direct contract with the DOE to manage LLNL.

Salaries and benefits (*in millions of dollars*)



Over 60 percent of the University's expenses are related to salaries and benefits. There are nearly 135,000 full time equivalent (FTE) employees in the University, excluding employees who are associated with LBNL whose salaries and benefits are included as laboratory expenses. FTE employees increased by approximately 3,300 in 2009 and nearly 50 percent were for academic and health sciences staff. The remaining increase in FTE employees was for staff to support the growth in research activities, as well as other activities of the University's mission.

Salaries and benefits for 2009, 2008 and 2007 are as follows:

| (<i>in millions of dollars</i>) | 2009 | 2008 | 2007 |
|-----------------------------------|-----------------|-----------------|-----------------|
| Salaries and wages | \$ 9,823 | \$ 9,359 | \$ 8,569 |
| Pension benefits | 69 | 3 | 6 |
| Retiree health benefits | 1,502 | 1,355 | 175 |
| Other employee benefits | 1,818 | 1,684 | 1,563 |
| Salaries and benefits | \$13,212 | \$12,401 | \$10,313 |

During 2009, overall salaries and benefits grew by \$811 million from 2008, or 6.5 percent.

Salaries and wages increased by \$464 million in 2009, or 5.0 percent, including \$90 million, or 4.2 percent, at the University's five medical centers. Other than at medical centers, salary and wage cost increases were primarily related to new academic and administrative employees necessary to directly support the increase in academic and research programs. As a result of reductions in state educational appropriations, generally there were no salary increases for staff in 2009, although faculty continued to receive merit increases.

The University's pension benefit expense is actuarially determined and independently calculated for the campuses and medical centers, separate from the DOE laboratories. Due to the funded status of the campus and medical center segment of UCRP, pension benefit costs were not significant in 2008 or 2007. However, in 2009 the University recorded an actuarially determined pension cost of \$69 million, based upon the latest actuarial valuation as of July 1, 2008, as the plan assets and actuarial liabilities begin to converge.

The University's retiree health benefit expense is also actuarially determined and independently calculated for the campus and medical centers, separate from LBNL. Retiree health benefit expense for the University's campuses and medical centers was \$1.50 billion and \$1.36 billion in 2009 and 2008, respectively. Prior to 2008, retiree health benefit expenses were recognized as they were paid.

Other employee benefit costs in 2009 increased by \$134 million, or 8.0 percent. The most prevalent increases were health insurance costs for active employees of \$117 million and the employer portion of payroll taxes of \$30 million, partially offset by lower worker's compensation costs of \$31 million.

During 2008, salaries and benefits grew by \$2.09 billion from 2007, or 20.2 percent. Salaries and wages increased by \$790 million, or 9.2 percent, including \$278 million at the University's medical centers where the growth was 12.1 percent. Retiree health benefit expense for the University's campuses and medical centers resulting from the implementation of GASB Statement No. 45 was \$1.36 billion. Other benefit costs increased by \$121 million, or 7.7 percent, primarily from increases in health insurance costs of \$59 million, the employer portion of payroll taxes of \$42 million and student fee remissions of \$14 million.

Scholarships and fellowships (*in millions of dollars*)



Despite increases in student tuition and fees, the University places a high priority on student financial aid as part of its commitment to affordability. Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, were higher by \$23 million in 2009 than in 2008, an increase of 5.5 percent, and were higher by \$27 million in 2008 than in 2007, an increase of 6.6 percent. In addition, scholarship allowances, representing financial aid and fee waivers by the University, are also forms of scholarship and fellowship costs that increased in 2009 by \$74 million, or 11.5 percent, to \$715 million and increased in 2008 by 9.2 percent to \$641 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, as the University continues its commitment to provide financial support for needy students, financial aid in all forms grew to \$1.17 billion in 2009 from \$1.07 billion in 2008 and \$988 million in 2007, an increase of \$178 million over the past two years, or 18.0 percent.

Utilities (*in millions of dollars*)



Utility costs rose by \$12 million in 2009 and by \$11 million in 2008. Over 80 percent of the University's utility costs are for electricity and natural gas. Electricity costs were up by \$10 million in 2009, after decreasing by \$8 million in 2008. Natural gas costs decreased by \$8 million in 2009 after increasing by \$14 million in 2008. Costs in 2009 for water increased by \$8 million.

Supplies and materials (*in millions of dollars*)



During 2009, overall supplies and materials costs increased by \$108 million, or 5.2 percent, and in 2008, by \$192 million, or 10.0 percent. In recent years, there has been inflationary pressure on the costs for medical supplies and laboratory instruments and higher costs for general supplies necessary to support expanded research activity and student enrollment. While that trend continued in 2009 for medical supplies, registering an \$86 million, or 10.0 percent, increase, general supplies were reduced by \$12 million, or 1.7 percent. Supplies associated with capital spending patterns increased by \$18 million.

Depreciation and amortization (*in millions of dollars*)

Higher capital spending over the past several years necessary to upgrade facilities and support both recent and anticipated enrollment growth resulted in depreciation and amortization expense increasing to \$1.20 billion in 2009 from \$1.09 billion in 2008 and \$1.05 billion in 2007.

DOE laboratories (*in millions of dollars*)

DOE laboratory expenses in 2009, 2008 and 2007 are as follows:

| (<i>in millions of dollars</i>) | 2009 | 2008 | 2007 |
|--|--------------|----------------|----------------|
| Lawrence Berkeley National Laboratory | \$ 613 | \$ 540 | \$ 514 |
| Lawrence Livermore National Laboratory | | 443 | 1,597 |
| DOE expense related to pension benefits | | | 17 |
| DOE expense related to retiree health benefits | 49 | 56 | 42 |
| DOE laboratory expenses | \$662 | \$1,039 | \$2,170 |

DOE laboratories' expenses decreased by \$377 million in 2009 and declined by \$1.13 billion in 2008.

At LBNL, expenses, excluding pension and retiree health, grew by \$73 million in 2009 and \$26 million in 2008. Salaries, along with employee benefits for active employees, are the predominant expenses totaling \$324 million in 2009, an increase of \$21 million from 2008. Salaries and employee benefits for active employees increased by \$10 million in 2008. Supplies and materials in 2009 and 2008 required for maintenance and seismic safety upgrades increased by \$23 million in both years. Spending for equipment grew by \$17 million in 2009 after declining by \$11 million in 2008.

LLNL operating expenses were reported in the University's financial statements through September 30, 2007, the date the University's contract to directly manage and operate LLNL terminated. The contract transitioned to LLNS effective October 1, 2007.

As discussed above, the University's pension benefit expense is actuarially determined and independently calculated for the DOE laboratories, separate from the campuses and medical centers. Due to the funded status of the DOE laboratory segment of UCRP, there was no pension benefit expense attributable to the DOE laboratories in 2009 or 2008, although there was an expense in 2007 associated with employees who formerly worked at LANL.

Beginning in 2008, the University's retiree health benefit expense is also actuarially determined and independently calculated for LBNL, separate from the campuses and medical centers. LANL and LLNL do not participate in the University's retiree health plan subsequent to their contract termination dates. Retiree health benefit expense for the DOE laboratories in 2009 of \$49 million is entirely attributable to LBNL retirees. Retiree health benefit expense for the DOE laboratories in 2008 of \$56 million consists of \$44 million for LBNL retirees resulting from the implementation of GASB Statement No. 45, and \$12 million for LLNL activity through September 30, 2007. Prior to 2008, retiree health benefit expenses were recognized as they were paid and included LLNL and LANL retirees through their contract termination dates.

Interest expense (*in millions of dollars*)

Interest expense, reported as a nonoperating expense, decreased by \$44 million in 2009 after increasing by \$15 million in 2008. The University has incurred additional interest expense as a result of new capital leases and bonds issued during the past three years, although the weighted average interest rate of the overall portfolio has decreased due to refinancing previously outstanding bonds at lower rates. Commercial paper rates have declined over the three years serving to reduce the University's short-term borrowing costs. Interest capitalized as part of construction costs also reduces interest expense. Capitalized interest was \$90 million in 2009, \$25 million in 2008 and \$34 million in 2007.

Other expenses (*in millions of dollars*)

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. These expenses increased by \$10 million in 2009 and increased by \$235 million in 2008. In 2009, most expense categories either declined or increased very modestly. In 2008, there were substantive increases across nearly all expense categories, including a non-recurring legal settlement of \$40 million, partially offset by improved management of professional liability insurance claims that resulted in lower costs by \$44 million. Disposals and write-offs of capital assets resulted in a loss of \$27 million in 2009 compared to a loss of \$16 million in 2008. Typically, routine disposals result in a very slight gain or loss.

In accordance with the GASB's reporting standards, operating losses were \$4.77 billion in 2009, \$4.70 billion in 2008 and \$3.26 billion in 2007. The operating loss in 2009 was partially offset by \$3.32 billion of net revenue that is required by the GASB to be classified as nonoperating, but clearly supports core operating activities of the University. As a result, expenses associated with core activities in 2009 exceeded revenue available to support core activities by \$1.45 billion.

Operating losses in 2008 increased significantly from 2007 due primarily to the change in financial reporting for retiree health benefit expense that resulted from implementation of GASB Statement No. 45. In 2008, operating losses of \$4.70 billion were partially offset by \$3.98 billion of net nonoperating revenue resulting in expenses exceeding revenue to support core activities by \$716 million. In 2007, operating losses of \$3.26 billion were more than offset by \$3.77 billion of net nonoperating revenue. In that year, revenue to support core activities exceeded the associated expenses by \$506 million.

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.

Net appreciation (depreciation) in fair value of investments (in millions of dollars)



In 2009, the University recognized net depreciation in the fair value of investments of \$1.28 billion compared to net depreciation of \$192 million during 2008 and net appreciation of \$949 million during 2007. Equity markets suffered losses in both 2009 and 2008, although the losses were partially offset by an increase in the fair value of certain securities in the fixed-income portfolios. Conversely, in 2007, equity markets delivered substantial gains, although as short-term interest rates rose the fair value of securities in the fixed-income portfolios declined.

Other Changes in Net Assets

Similar to other nonoperating activities discussed above, other changes in net assets 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.

State capital appropriations (in millions of dollars)



The University's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the state of California decreased by \$81 million in 2009 after increasing by \$101 million in 2008. Capital appropriations are from bond measures approved by the California voters.

Capital gifts and grants, net (in millions of dollars)



Capital gifts and grants decreased by \$90 million in 2009 after increasing by \$28 million in 2008. The pattern in 2009 was opposite of 2008. In 2009, private capital gifts declined substantially, although grants from federal and state sources grew by \$32 million. In 2008, the opposite occurred. Private capital gifts increased, offsetting reductions from federal and state sources. Significant Federal Emergency Management Agency (FEMA) grants, primarily for the replacement hospitals at UCLA, declined in 2008 as the projects approached completion. Grants from FEMA decreased by \$26 million in 2008 after increasing by \$7 million in 2007.

Permanent endowments (*in millions of dollars*)



Gifts of permanent endowments to the University are a measure of the University's continuing emphasis on private giving. In addition to gifts directly to the University, many gifts of permanent endowments are made through the campus foundations in support of University activities. Combined gifts of permanent endowments to both the University and campus foundations totaled \$165 million in 2009, \$215 million in 2008 and \$210 million in 2007.

The University's Cash Flows

The statement of cash flows presents the significant sources and uses of cash. A summary comparison of cash flows for 2009, 2008 and 2007 is as follows:

| (in millions of dollars) | 2009 | 2008 | 2007 |
|---|----------------|----------------|----------------|
| Cash received from operations | \$ 15,352 | \$ 14,438 | \$ 13,100 |
| Cash payments for operations | (17,616) | (16,385) | (15,299) |
| Net cash used by operating activities | (2,264) | (1,947) | (2,199) |
| Net cash provided by noncapital financing activities | 3,821 | 3,708 | 3,472 |
| Net cash used by capital and related financing activities | (1,800) | (1,453) | (1,721) |
| Net cash provided (used) by investing activities | 623 | (347) | 393 |
| Net increase (decrease) in cash | 380 | (39) | (55) |
| Cash, beginning of year | 108 | 147 | 202 |
| Cash, end of year | \$ 488 | \$ 108 | \$ 147 |

The University's cash in demand deposit accounts rose by \$380 million in 2009 and declined by \$39 million and \$55 million in 2008 and 2007, respectively. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis, although a \$345 million deposit from the state at the end of 2009 was not invested in STIP until the following day creating the significant increase from the 2008 cash levels.

Over \$2.26 billion of cash was used for operating activities in 2009. Cash used for operating purposes has fluctuated within a range of \$1.95 billion to \$2.26 billion over the past three years.

Cash provided by noncapital financing activities has ranged between \$3.47 billion and \$3.82 billion over the same three years. As defined by the GASB, cash flows from noncapital financing activities includes state educational appropriations and gifts received for other than capital purposes that are used to support operating activities.

Cash flows from noncapital financing activities exceeded cash flows required for operating purposes by \$1.56 billion in 2009, \$1.76 billion in 2008 and \$1.27 billion in 2007. However, as previously indicated, subsequent to 2009, the state of California finalized their State Budget Act that required reversion to the state of \$715 million of 2009 state educational appropriations previously received. Had the State Budget Act been finalized prior to the end of the year, cash flows from noncapital financing activities would have been \$715 million less than reported.

Net cash of \$1.80 billion, \$1.45 billion and \$1.72 billion was used in 2009, 2008 and 2007, respectively, for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include new external financing, state and federal capital appropriations and gifts for capital purposes.

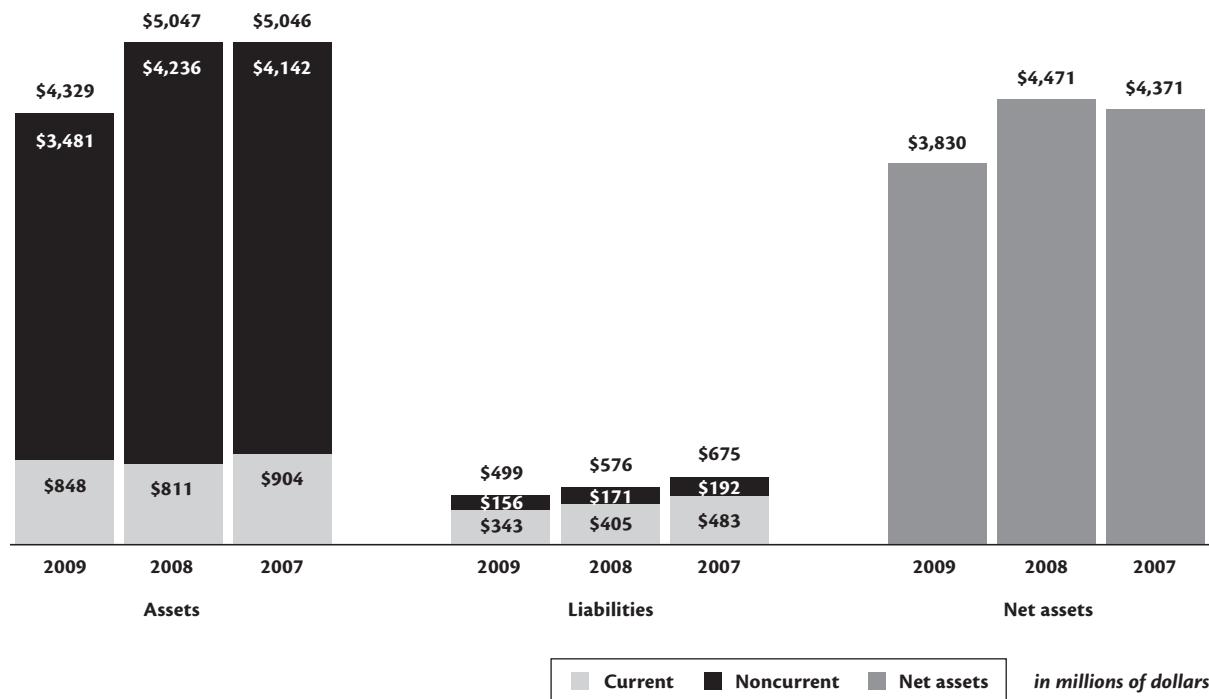
The year-to-year changes in cash provided (used) by investing activities is largely the result of the routine timing of investment purchases and, to a lesser extent, investment income.

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 these ten 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 assets presents their combined financial position at the end of the year. It displays all of the campus foundations' assets, liabilities and net assets. The difference between assets and liabilities are net assets, representing a measure of the current financial condition of the campus foundations.



The major components of the combined assets, liabilities and net assets of the campus foundations at 2009, 2008 and 2007 are as follows:

| (in millions of dollars) | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| ASSETS | | | |
| Investments | \$3,525 | \$ 4,159 | \$ 4,037 |
| Investment of cash collateral | 189 | 280 | 367 |
| Pledges receivable, net | 402 | 421 | 450 |
| Other assets | 213 | 187 | 192 |
| Total assets | 4,329 | 5,047 | 5,046 |
| LIABILITIES | | | |
| Securities lending collateral | 189 | 280 | 367 |
| Obligations under life income agreements | 162 | 181 | 181 |
| Other liabilities | 148 | 115 | 127 |
| Total liabilities | 499 | 576 | 675 |
| NET ASSETS | | | |
| Restricted: | | | |
| Nonexpendable | 1,867 | 1,916 | 1,728 |
| Expendable | 1,951 | 2,528 | 2,628 |
| Unrestricted | 12 | 27 | 15 |
| Total net assets | \$3,830 | \$4,471 | \$4,371 |

Assets. Investments in 2009 declined by \$634 million from 2008. The significant changes were \$743 million of net depreciation in the fair value of investments and \$91 million of net cash payments as foundations' grants to the University were greater than the cash receipts from gifts, partially offset by \$154 million of new permanent endowments and \$64 million of investment income.

Investments in 2008 grew by \$122 million from 2007, generally resulting from \$180 million of new permanent endowments, \$78 million of investment income and \$12 million of net cash receipts, partially offset by \$143 million of net depreciation in the fair value of investments.

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 Investment Committee 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 \$922 million, \$1.03 billion and \$1.13 billion of the campus foundations' investments at the end of 2009, 2008 and 2007, respectively.

The financial markets, both domestically and internationally, are currently demonstrating significant volatility that affect the valuation of investments. The Boards of Trustees for the campus foundations utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

The campus foundations' statement of net assets includes an allocation of the University's securities lending assets and liabilities at the end of each year and income and rebates for the year, in accordance with their respective investments with the University. Two campus foundations participate directly in their own securities lending program. The investment of cash collateral and related securities lending liability allocated by the University to the campus foundations totaled \$160 million, \$199 million and \$320 million at the end of 2009, 2008 and 2007, respectively. The campus foundations with direct participation loaned securities for cash collateral of \$29 million, \$78 million and \$46 million at the end of 2009, 2008 and 2007, respectively.

Certain campuses and campus foundations have comprehensive fund-raising campaigns underway, raising both gifts and pledges. Pledges receivable, representing gifts to be received in the future, were \$402 million at the end of 2009, down slightly by \$19 million from last year. Pledges receivable were \$421 million at the end of 2008, down by \$29 million from 2007.

Liabilities. Total campus foundations' liabilities were \$499 million in 2009 compared to \$576 million in 2008 and \$675 million in 2007. The decrease in both years is primarily related to lower securities lending activity that dropped by \$91 million and \$87 million in 2009 and 2008, respectively.

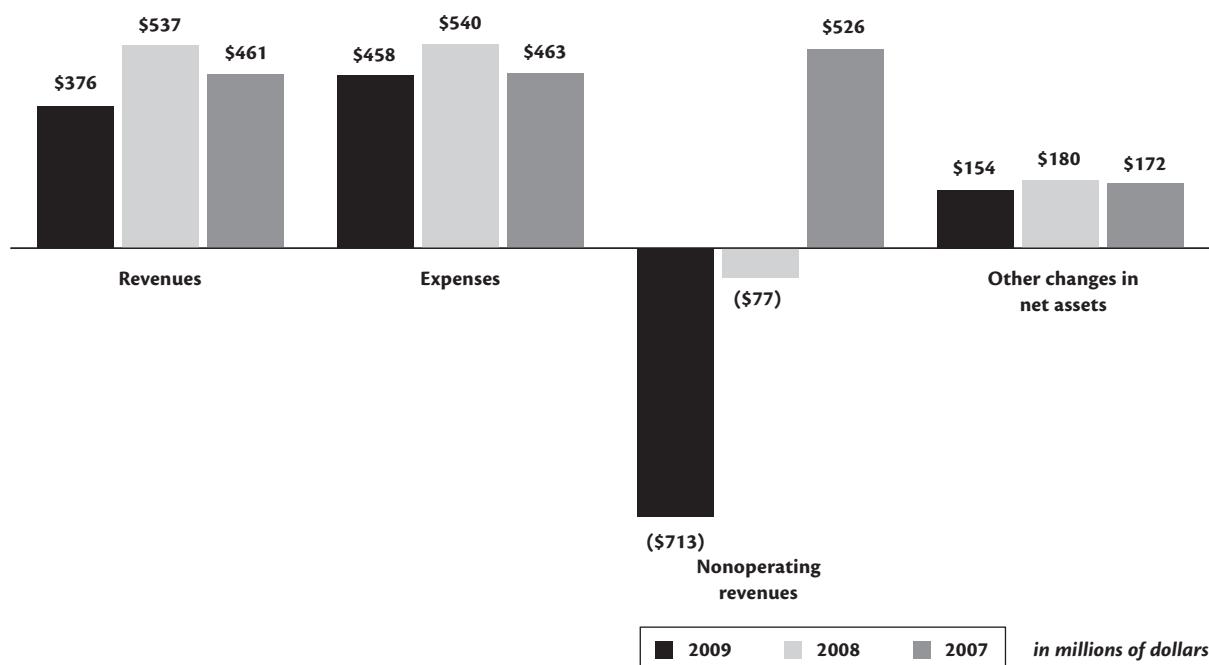
Net assets. Net assets are reported in certain categories based upon the nature of the restrictions on their use.

Restricted, nonexpendable net assets include the corpus of the campus foundations' permanent endowments and the estimated fair value of certain planned giving arrangements. The increase is primarily attributable to new permanent endowment gifts received, partially offset by an increase in the estimated liability to beneficiaries of the planned giving arrangements.

Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and investment gains, subject to each individual campus foundation's spending policy; support received from gifts; trustee held investments; or other third party receipts. New gifts and net appreciation or depreciation in the fair value of investments were the primary reasons for the changes in value in 2009 and 2008.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes.

The Campus Foundations' Results of Operations



The campus foundations' combined statement of revenues, expenses and changes in net assets 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 2009, 2008 and 2007 is as follows:

| (in millions of dollars) | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| OPERATING REVENUES | | | |
| Private gifts | \$ 373 | \$ 534 | \$ 458 |
| Other revenues | 3 | 3 | 3 |
| Total operating revenues | 376 | 537 | 461 |
| OPERATING EXPENSES | | | |
| Grants to campuses | 445 | 528 | 451 |
| Other expenses | 13 | 12 | 12 |
| Total operating expenses | 458 | 540 | 463 |
| Operating loss | (82) | (3) | (2) |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment income | 64 | 78 | 79 |
| Net appreciation (depreciation) in fair value of investments | (743) | (143) | 451 |
| Other nonoperating expenses | (34) | (12) | (4) |
| Income (loss) before other changes in net assets | (795) | (80) | 524 |
| OTHER CHANGES IN NET ASSETS | | | |
| Permanent endowments | 154 | 180 | 172 |
| Increase in net assets | (641) | 100 | 696 |
| NET ASSETS | | | |
| Beginning of year | 4,471 | 4,371 | 3,675 |
| End of year | \$3,830 | \$4,471 | \$4,371 |

Operating loss. Operating revenues generally consist of current-use gifts, including pledges and income from other fund-raising activities, although they do not include additions to permanent endowments and endowment income. Operating revenues decreased by \$161 million in 2009 after increasing by \$76 million in 2008.

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 campus' programmatic needs are also taken into consideration, subject to abiding by the designated purposes of gifts to the endowment and the amounts available for grants in any particular year.

Private gift revenue includes pledges, a non-cash operating revenue. 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.

Nonoperating revenues (expenses). Nonoperating revenues or expenses include net investment income, net appreciation or depreciation in the fair value of investments and adjustments to gift annuity and trust liabilities. Investment income of \$64 million was lower than \$78 million in 2008 and \$79 million in 2007. Due to the performance of the financial markets in 2009 and 2008, the campus foundations' results include \$743 million and \$143 million of net depreciation in the fair value of investments in 2009 and 2008, respectively, compared to \$451 million of net appreciation in the fair value of investments in 2007.

Other changes in net assets. Gifts of permanent endowments of \$154 million in 2009 dropped by \$26 million from 2008 levels. In 2008, gifts of permanent endowments grew by \$8 million from 2007.

The Campus Foundations' Cash Flows

The campus foundations' combined statement of cash flows presents the significant sources and uses of cash and cash equivalents. A summary comparison of cash flows for 2009, 2008 and 2007 is as follows:

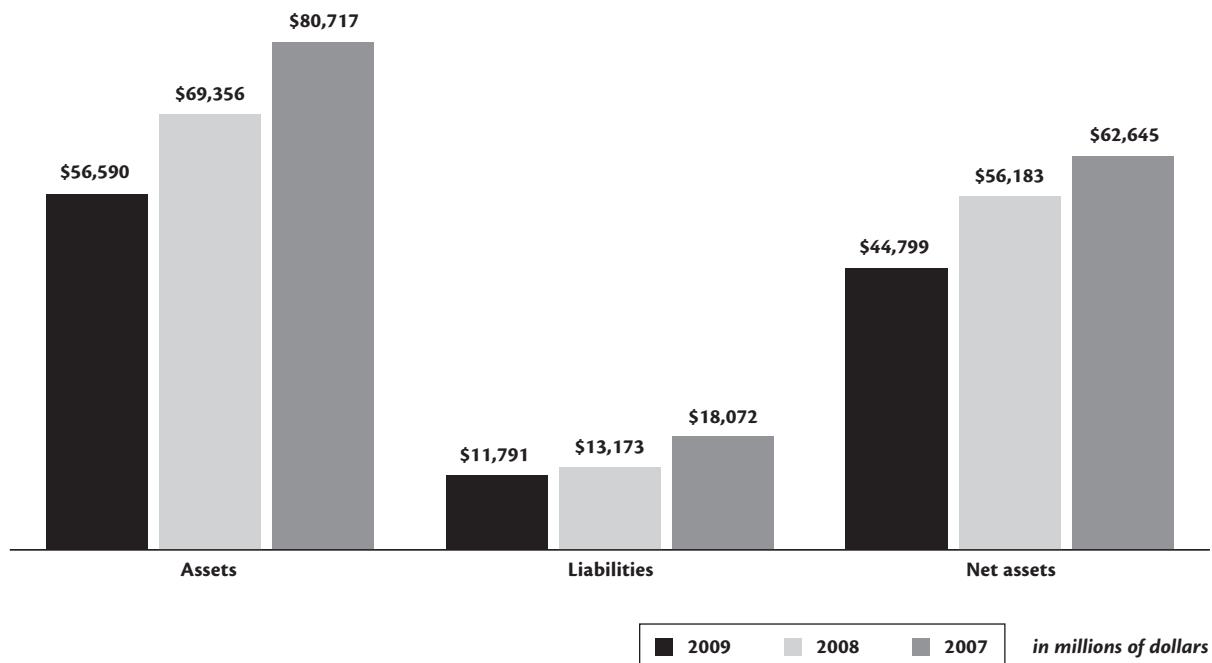
| (in millions of dollars) | 2009 | 2008 | 2007 |
|---|---------------|---------------|---------------|
| Cash received from private gifts | \$ 387 | \$ 551 | \$ 429 |
| Cash payments for grants | (472) | (547) | (463) |
| Other cash receipts (payments), net | (6) | 8 | 3 |
| Net cash provided (used) by operating activities | (91) | 12 | (31) |
| Net cash provided by noncapital financing activities | 147 | 163 | 163 |
| Net cash used by investing activities | (24) | (186) | (96) |
| Net increase (decrease) in cash and cash equivalents | 32 | (11) | 36 |
| Cash and cash equivalents, beginning of year | 151 | 162 | 126 |
| Cash and cash equivalents, end of year | \$ 183 | \$ 151 | \$ 162 |

Cash and cash equivalents were \$183 million in 2009 compared to \$151 million in 2008, an increase of \$32 million. In 2008, cash decreased by \$11 million. Cash used by operating activities was \$91 million in 2009 compared to cash provided of \$12 million in 2008. Private gift revenue fell in 2009 as a result of economic conditions. As discussed above, cash payments for grants are an operating activity, but these payments also include investment income which is an investing activity. In addition, while the trend is for grants to campuses to coincide with contributions revenue, the timing may not always occur in the same year. Cash provided by noncapital financing activities primarily results from cash gifts for permanent endowments. Cash used by investing activities totaled \$24 million in 2009 compared to \$186 million in 2008. The difference is the result of the routine timing of investment purchases.

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

UCRS' Financial Position



The statement of plans' fiduciary net assets 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 assets. The difference between assets and liabilities are the net assets held in trust for pension benefits. These represent amounts available to provide pension benefits to members of UCRP and participants in the defined contribution plans and PERS-VERIP. At June 30, 2009, the UCRS plans' assets were nearly \$57 billion, liabilities nearly \$12 billion and net assets held in trust for pension benefits nearly \$45 billion, a decrease of \$11.38 billion from 2008. Net assets decreased in 2008 by \$6.46 billion from 2007.

The major components of the assets, liabilities and net assets available for pension benefits for 2009, 2008 and 2007 are as follows:

| (in millions of dollars) | 2009 | 2008 | 2007 |
|--|-----------------|-----------------|-----------------|
| ASSETS | | | |
| Investments | \$42,353 | \$ 52,532 | \$ 59,685 |
| Participants' interest in mutual funds | 2,924 | 3,773 | 3,794 |
| Investment of cash collateral | 10,350 | 12,162 | 16,884 |
| Other assets | 963 | 889 | 354 |
| Total assets | 56,590 | 69,356 | 80,717 |
| LIABILITIES | | | |
| Securities lending collateral | 10,387 | 12,224 | 16,885 |
| Other liabilities | 1,404 | 949 | 1,187 |
| Total liabilities | 11,791 | 13,173 | 18,072 |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | | | |
| Members' defined benefit plan benefits | 32,316 | 42,099 | 48,192 |
| Participants' defined contribution plan benefits | 12,483 | 14,084 | 14,453 |
| Total net assets held in trust for pension benefits | \$44,799 | \$56,183 | \$62,645 |

Assets. UCRS investments, along with participants' interest in mutual funds, totaled \$45.28 billion at the end of 2009 compared to \$56.31 billion at the end of 2008, a decrease of \$11.03 billion. The decrease was generally a result of \$11.33 billion of net depreciation in the fair value of investments and benefit payments and participant withdrawals of \$2.47 billion that were partially offset by \$1.51 billion in net investment earnings, \$929 million in contributions to UCRS and the net effect of the securities trading settlements of \$332 million at the beginning and end of the year.

In 2008, UCRS investments, including participants' interest in external mutual funds, decreased by \$7.17 billion. The decrease in 2008 was generally a result of \$4.98 billion of net depreciation in the fair value of investments, benefit payments and participant withdrawals of \$2.80 billion, a transfer of UCRP assets to the LLNS defined benefit plan of \$1.57 billion and the net effect of the securities trading settlements of \$928 million at the beginning and end of the year, partially offset by \$1.89 billion in net investment earnings and \$1.04 billion in contributions to UCRS.

During 2009, participants' interest in external mutual funds, representing defined contribution plan contributions to certain mutual funds on a custodial plan basis, dropped by \$849 million to \$2.92 billion primarily through a combination of \$1.02 billion of depreciation in the fair value of investments and \$157 million of participant withdrawals, partially offset by \$256 million of participant contributions, \$69 million of investment earnings and \$7 million transferred from University-managed investments. In 2008, participants' interest in external mutual funds dropped by \$21 million to \$3.77 billion primarily through a combination of \$443 million of depreciation in the fair value of investments and \$289 million of participant withdrawals that was nearly offset by \$299 million of participant contributions, \$259 million of investment earnings and \$153 million transferred from University-managed investments.

Along with the University, UCRS participates in a securities lending program as a means to augment income. The investment of cash collateral and the associated liability for collateral held by UCRS for securities on loan at the end of the year decreased in 2009 and 2008 by 15 percent and 28 percent, respectively. As with the University, there was decreased demand from borrowers for certain classes of fixed income securities and decreased availability of certain of the UCRS' equity securities resulting from asset allocation changes from publicly traded equity securities to alternative investments.

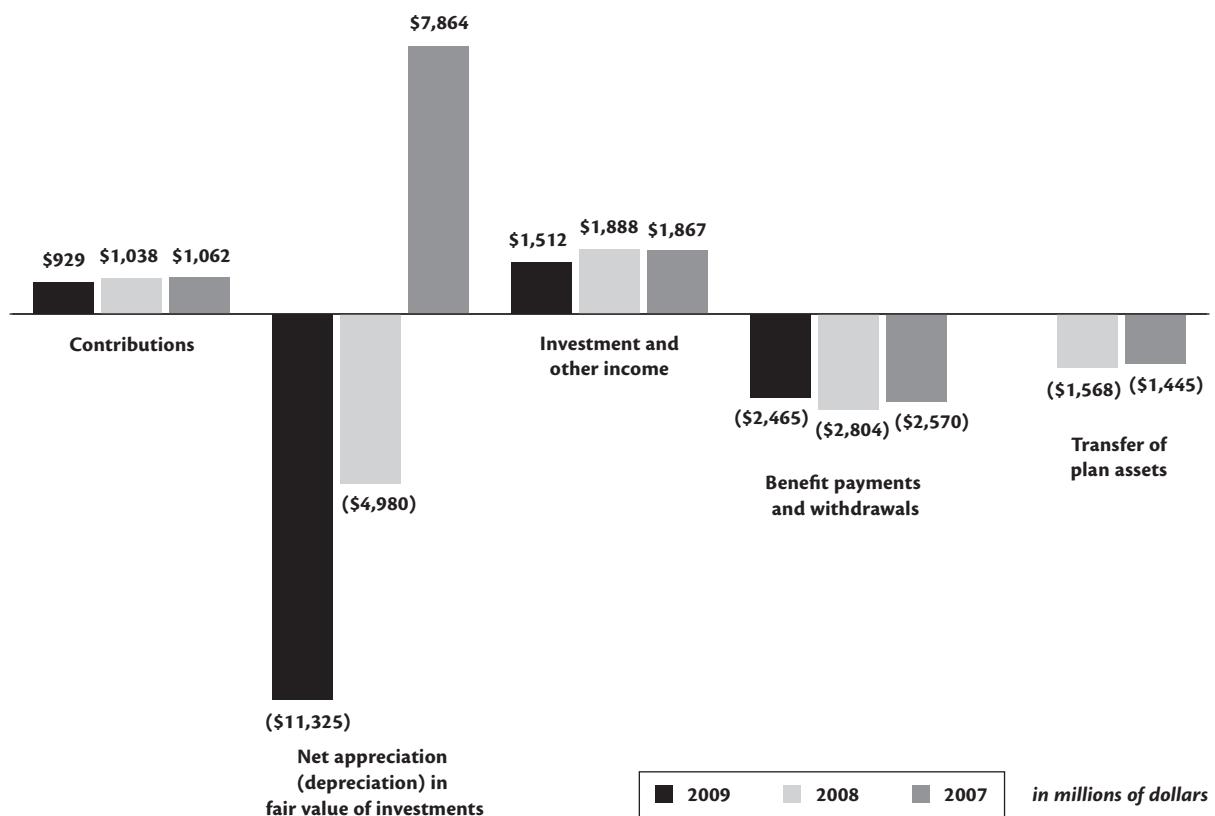
Liabilities. Total UCRS liabilities were \$11.79 billion in 2009 compared to \$13.17 billion and \$18.07 billion in 2008 and 2007, respectively. The most significant aspect of the change from year-to-year is a result of the demand under the securities lending program, with the remainder a result of changes in the liabilities for security purchases to be settled after year-end.

Net assets. As of June 30, 2009, a total of \$32.32 billion of the net assets are dedicated to the UCRP members' defined benefit plan benefits and over \$12.48 billion are associated with participants' tax deferred, defined contribution plan benefits. As of July 1, 2008, the date of the most recent actuarial report, the UCRP's overall funded ratio was 103.0 percent compared to 104.8 percent as of July 1, 2007.

While all assets of UCRP are available to pay any member's benefits, assets and liabilities for the campus and medical center segment of UCRP internally are tracked separately from the DOE national laboratory segment of UCRP. As of July 1, 2008, the funded ratio for the campus and medical center segment was 103.4 percent compared to 105.2 percent as of July 1, 2007. For the DOE national laboratory segment, as of July 1, 2008 the funded ratio was 101.3 percent compared to 103.5 percent as of July 1, 2007. The DOE has a continuing obligation to the University to provide contributions to pay UCRP benefits to laboratory segment retirees.

The Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. However, the financial markets, both domestically and internationally, have deteriorated over the past year. The fair value of investments held by UCRP declined subsequent to July 1, 2008. The actuarial value of plan assets also declined. As a result, the funded ratio as of the July 1, 2009 actuarial valuation for the campuses and medical centers as well as DOE laboratories is expected to be approximately 94.8 percent.

UCRS' Results of Operations



The statement of changes in plans' fiduciary net assets is a presentation of the UCNS' operating results. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2009, 2008 and 2007 is as follows:

| (in millions of dollars) | 2009 | 2008 | 2007 |
|---|-----------------|----------------|----------------|
| ADDITIONS (REDUCTIONS) | | | |
| Contributions | \$ 929 | \$ 1,038 | \$ 1,062 |
| Net (depreciation) appreciation in fair value of investments | (11,325) | (4,980) | 7,864 |
| Investment and other income, net | 1,512 | 1,888 | 1,867 |
| Total additions (reductions) | (8,884) | (2,054) | 10,793 |
| DEDUCTIONS | | | |
| Benefit payments and participant withdrawals | 2,465 | 2,804 | 2,570 |
| Plan expenses | 36 | 36 | 46 |
| Transfer of assets to the LLNS defined benefit plan | | 1,568 | |
| Transfer of assets to the LANS defined benefit plan | | 1,445 | |
| Total deductions | 2,501 | 4,408 | 4,061 |
| Increase (decrease) in net assets held in trust for pension benefits | \$11,385 | \$6,462 | \$6,732 |

Contributions. Contributions in 2009 decreased by \$109 million and in 2008 by \$24 million, partially resulting from discontinued participation in the defined contribution plans by former employees at LLNL and LANL transitioning from the University to LLNS and LANS. The majority of contributions, nearly \$920 million in 2009, are made by participants into the defined contribution plans that included \$7 million and \$8 million of University contributions in 2009 and 2008, respectively. Participants are required to make contributions to the DC Plan and may make voluntary and rollover contributions to the DC Plan, 403(b) plan and 457(b) plan. Due to the UCRP's funded position, neither the University nor the members have been required to make contributions since 1990. However, \$25 million of contributions were recorded in 2007, primarily a \$17 million contribution from the DOE on behalf of members who formerly worked at LANL.

Net (depreciation) appreciation in fair value of investments. UCNS recognized net depreciation in the fair value of investments of \$11.33 billion during 2009 compared to \$4.98 billion net depreciation in the fair value of investments during 2008. In 2007, there was net appreciation in the fair value of investments of \$7.86 billion.

The overall investment loss based upon unit values for UCNS was (16.6) percent in 2009 compared to an investment loss of (5.0) percent in 2008 and an investment gain of 17.7 percent in 2007.

Investment and other income, net. Investment and other income in 2009 of \$1.51 billion decreased by \$376 million, or 19.9 percent. Similarly, investment and other income in 2008 of \$1.89 billion increased by \$21 million, or 1.1 percent. The highly extraordinary financial and economic conditions in 2009 led to significantly lower interest rates and dividend payouts. Securities lending investment income, net of fees and rebates, increased to \$112 million in 2009 from \$97 million in 2008. A reduction in interest rates during the past two years resulted in lower levels of both gross income and rebates, although yields available from lending U.S. government fixed income securities were greater over the past two years.

Benefit payments and participant withdrawals. Benefit payments and participant withdrawals were \$339 million less in 2009 than in 2008 and \$234 million higher in 2008 than in 2007. Payments from UCRP and PERS-VERIP to retirees increased by \$96 million and \$154 million in 2009 and 2008, respectively, due to a growing number of retirees receiving payments, cost-of-living adjustments and member withdrawals. At the beginning of 2009, there were 50,100 retirees and beneficiaries receiving payments compared to 47,600 at the beginning of 2008. Elections of lump sum cash-outs of UCRP and participant withdrawals from the Retirement Savings Plans declined by a combined \$435 million in 2009 after growing by \$80 million in 2008. Participant withdrawals from the Retirement Savings Plans in 2008 were unusually high as a result of former employees at LLNL transitioning from the University to LLNS.

Transfer of assets to the LLNS and LANS defined benefit plans. With the selection of LLNS as the successor contractor to the University for the management of LLNL effective October 1, 2007, assets and liabilities attributable to UCRP benefits of the approximately 3,900 LLNL employees who accepted employment with LLNS and elected to participate in the defined benefit plan established by LLNS were transferred to the LLNS defined benefit plan. The market value of assets transferred as of March 31, 2008 to the LLNS defined benefit plan associated with the transitioning employees who were not retained in UCRP was \$1.57 billion.

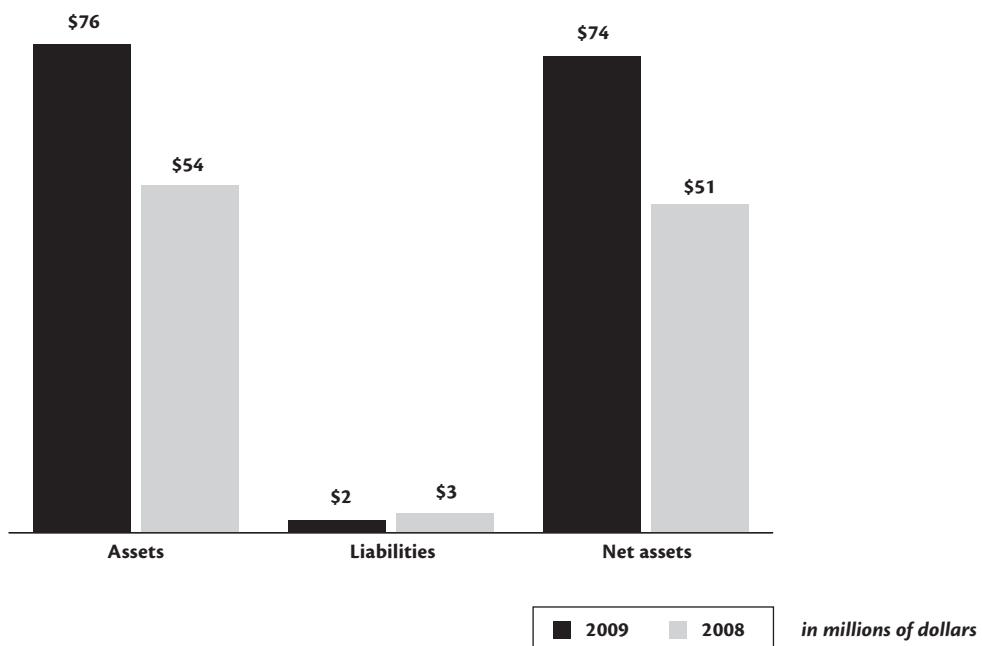
With the selection of LANS as the successor contractor to the University for the management of LANL effective June 1, 2006, assets and liabilities attributable to the UCRP benefits of the approximately 6,500 LANL employees who accepted employment with LANS and elected to participate in the defined benefit plan established by LANS were transferred to the LANS defined benefit plan. The market value of assets transferred as of March 31, 2007 to the LANS defined benefit plan associated with the transitioning employees who were not retained in UCRP was \$1.44 billion.

Additional information on the retirement plans can be obtained from the 2009 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plans and the University of California PERS-VERIP 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)

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

UCRHBT's Financial Position



The statement of trust's fiduciary net assets presents the financial position of UCRHBT at the end of the fiscal year. It displays all of the UCRHBT's assets, liabilities and net assets. The difference between assets and liabilities are the net assets held in trust for retiree health benefits. These represent amounts available to provide retiree health benefits to its participants. At June 30, 2009, the UCRHBT's assets were \$76 million, liabilities were \$2 million and net assets held in trust for retiree health benefits were \$74 million, an increase of \$23 million from 2008.

The major components of the assets, liabilities and net assets available for retiree health benefits for 2009 and 2008 are as follows:

| (in millions of dollars) | 2009 | 2008 |
|---|-------------|-------------|
| ASSETS | | |
| Investments | \$ 38 | \$ 20 |
| Other assets | 38 | 34 |
| Total assets | 76 | 54 |
| LIABILITIES | | |
| Total liabilities | 2 | 3 |
| NET ASSETS HELD IN TRUST FOR RETIREE HEALTH BENEFITS | | |
| Total net assets held in trust for retiree health benefits | \$74 | \$51 |

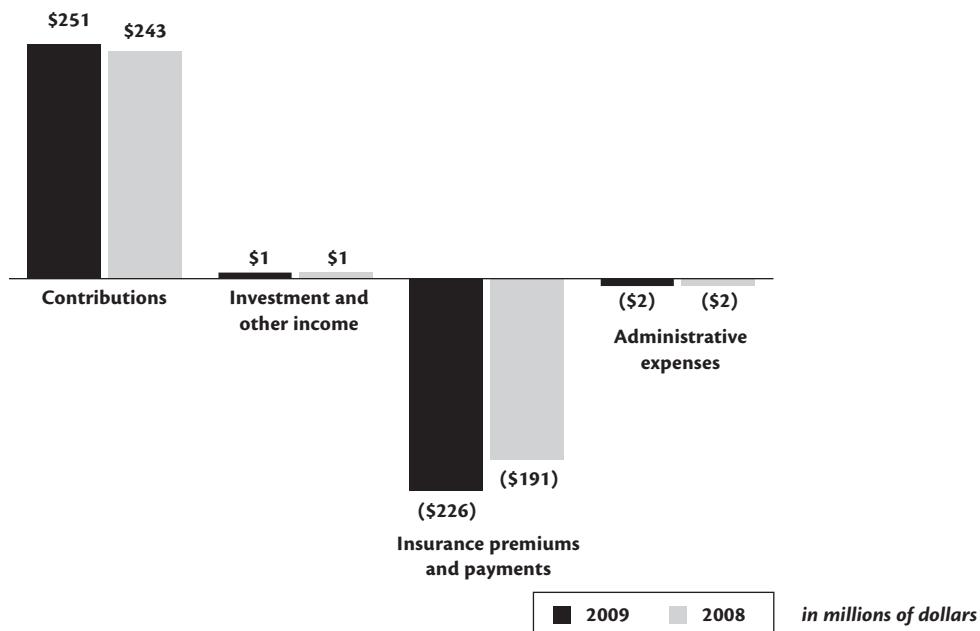
Assets. UCRHBT investments totaling \$38 million in 2009 and \$20 million in 2008 are restricted to a portfolio of high-quality money market instruments in a commingled fund. Other assets in 2009 consist of receivables, primarily contributions from the University of \$16 million and rebates from insurance carriers of \$5 million, and prepaid insurance premiums of \$17 million. Similarly, other assets in 2008 consist of contribution receivables from the University of \$15 million, rebates from insurance carriers of \$4 million and prepaid insurance premiums of \$15 million.

Liabilities. UCRHBT liabilities were \$2 million and \$3 million in 2009 and 2008, respectively, consisting of insurance premiums and claims and administrative expenses payable to the University.

Net assets. Net assets of \$74 million and \$51 million in 2009 and 2008, respectively, are for the exclusive purpose of providing retiree health benefits pursuant to the University's plan to participants and beneficiaries who retired from a campus or medical center, and defraying the reasonable expenses associated with providing such benefits.

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 actuarial accrued liability associated with the participants and beneficiaries who retired from a campus or medical center as of July 1, 2008, the date of the latest actuarial valuation, was \$13.30 billion. Contributions made to UCRHBT toward retiree health benefits, at rates determined by the University, reduce the unfunded actuarial accrued liability.

UCRHBT's Results of Operations



The statement of changes in trust's fiduciary net assets is a presentation of the UCRHBT's operating results. It indicates whether the financial condition has improved or deteriorated during the year. Summarized operating results for 2009 and 2008 are as follows:

| | (in millions of dollars) | |
|---|--------------------------|--------------|
| | 2009 | 2008 |
| ADDITIONS | | |
| Contributions | \$ 251 | \$ 243 |
| Investment income | 1 | 1 |
| Total additions | 252 | 244 |
| DEDUCTIONS | | |
| Insurance premiums and payments | 226 | 191 |
| Plan expenses | 2 | 2 |
| Total deductions | 228 | 193 |
| Increase in net assets held in trust for retiree health benefits | \$ 24 | \$ 51 |

Contributions. Contributions in 2009 were \$251 million, an increase of \$8 million from \$243 million in 2008. Campuses and medical centers contributed \$235 million during the year based upon projected pay-as-you-go financing, and retirees from campuses and medical centers contributed \$16 million. In 2008, contributions from the campuses and medical centers were \$243 million, including a one-time contribution of \$20 million in order to provide initial cash for working capital purposes, and retirees from campuses and medical centers contributed \$17 million.

Investment income. Investment income consists of interest income of \$1 million for both 2009 and 2008. Even though invested balances were substantially greater this year, the investment return was lower. The overall investment return was 1.5 percent and 4.3 percent for 2009 and 2008, respectively.

Insurance premiums and payments. Insurance premiums and payments were \$226 million in 2009, including \$5 million of insurance rebates from carriers, compared to \$191 million in 2008. However, since insurance premiums and payments must be made in advance of the beginning of the month and the trust was established on July 1, 2007, UCRHBT's initial year in 2008 included eleven payments compared to twelve payments in 2009. After adjusting for this non-recurring circumstance, premiums and payments increased by approximately nine percent in 2009.

Plan expenses. The University acts as a third-party administrative agent on behalf of UCRHBT to pay health care insurers and administrators amounts currently due. UCRHBT paid the University \$2 million in both 2009 and 2008 for the cost of providing these services.

Additional information on the retiree health benefit plan can be obtained from the 2009 annual reports of the University of California Health and Welfare Plan by writing to the University of California, Office of the President, Human Resources and Benefits, Post Office Box 24570, Oakland, California 94623.

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.

Major financial strengths of the University include a diverse source of revenues, including those from the state of California, student fees, federally sponsored grants and contracts, medical centers, private support and self-supporting enterprises.

The variety of fund sources has become increasingly important over the past several years given the effects of the state's financial crisis that required reductions in both instructional and non-instructional programs. The state is continuing its work to resolve its serious financial situation in which expenditures have continued to exceed revenues.

Five years ago, the University and the Governor agreed on a Compact to provide guidance and financial commitments to a long-term resource plan for the University. The Compact was to address fundamental financial support, enrollment, student fees and other key program elements for 2007 through 2011 and to provide a financial foundation for the University and the ability to plan for student fee levels over the next several years. In exchange for this long-term stability, the University committed to focus its resources to address long-term accountability goals for enrollment, student fees, financial aid and program quality, among other areas. For the second consecutive fiscal year, the State Budget Act did not fully fund the Compact.

State educational appropriations for 2009 and 2010 include one-time and permanent reductions aggregating \$813 million, after considering one-time assistance of \$640 million from federal economic stimulus funds. The reduction for 2010 is \$637 million, when compared against the state educational appropriations that were originally budgeted for 2009 at the beginning of the year. Along with the \$813 million of reductions in state educational appropriations, the University is also absorbing \$335 million over the 2009 and 2010 period for increasing costs related to student enrollments, health benefit costs, faculty merits, utility costs, etc. that have not been funded by the state.

There is no state educational appropriation for enrollment growth. As a result, the University has announced measures to curtail enrollment of freshman by 2,300 for 2010, although this will be offset somewhat by an increase in transfers from California community colleges of 500 students. Even with this action, the University's student enrollment will be 11,000 over budget.

Student fee increases already in place for 2009 and those approved for 2010 address approximately \$211 million of the \$813 million in reductions. As a result, in July 2009, University administration worked with The Regents who approved a declaration of financial emergency effective for one year (September 1, 2009 to August 31, 2010) and proposed a series of budget actions. In addition to fee increases already approved, the University has implemented a furlough/salary reduction plan saving \$184 million, campus and systemwide layoffs and programmatic reductions saving \$343 million, and other systemwide savings, including debt restructuring, intended to save another \$75 million.

In addition to the above, over the course of 2010, the state will be deferring some payments to the University; \$250 million due in July 2009 will be deferred until October 2009, and another \$500 million will be deferred until the end of 2010. Other deferrals are also possible. The University is exploring measures such as utilizing its taxable commercial paper program for working capital purposes to mitigate the effect of the cash flow deferral.

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. While the federal government works through its own financial constraints, there is a bipartisan effort underway to focus on innovation and competitiveness for the nation. In addition, the University is in an excellent position to attract substantial additional research funding in 2010 from federal economic stimulus funds made available by the American Recovery and Reinvestment Act. The University is a unique national resource for helping the nation address competitiveness and economic initiatives.

The University's private support is a testament to its distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which its alumni, corporations, foundations and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University's programs and the importance of its mission. At the same time, private support in 2010 will likely continue to reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

Additional, affordable and accessible student housing continues to be required in order to satisfy demand. Most campus residence halls are occupied at design capacity. The University is responding to increased demand by building student housing in the traditional manner, with housing fees set to generate sufficient revenue to cover direct and indirect operating costs and debt service, and by seeking development opportunities for privately owned housing on University campuses.

Currently, the University does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. Long-term strategic policy issues, such as pre-funding, will be considered in the future. If pre-funding occurs in the future, UCRHBT will be the entity that holds the assets.

UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. Since 1990, there have not been any University contributions to UCRP. In addition, since 1990, the required employee member contributions to UCRP have been suspended. However, contributions are required to be made to the separate defined contribution plan maintained by the University. Effective with the July 1, 2008 actuarial valuation, a new funding policy, including a three-year amortization period for any initial surplus, was adopted for UCRP. The new funding policy determines recommended total contributions based on UCRP's Normal Cost adjusted for any surplus or underfunding, starting in 2010. The University plans to implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time. Currently, The Regents has authorized the initial resumption of shared employer and employee contributions to UCRP beginning in April 2010. The State Budget Act for 2010 eliminated \$20 million in new funding for retirement contributions. The University is evaluating its options and will pursue restoration of this funding from the state.

The University's medical centers have demonstrated very positive financial results, 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. Over the last few years, Medicare margins have declined as a result of payment reductions. Changes to the Medi-Cal program will likely limit or reduce the rates of payment growth to the medical

centers in future years. Also, as a result of state legislation, the medical centers face capital requirements to ensure that facilities can maintain uninterrupted operations following a major earthquake. While the state has provided additional capital to meet these requirements, the level of support provided will not cover the full cost to the University. Other sources of capital are required.

The continuing financial success of the medical centers is predicated on a multifaceted strategy, which includes competing in commercial markets and offering high quality regional services. Positive results in commercial contracts have helped address the lack of support for medical education and care for the poor. Further, the medical centers remain competitive in their respective markets by reducing costs through improved efficiencies, making strategic investments and by expanding their presence in the market through stronger links with other providers and payers. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

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

The state's financial circumstances have resulted in suspension of state general obligation and lease revenue bond funding for approximately \$613 million in capital projects for the University. The University is working with the state to implement alternate financing strategies for some of these projects. There are also plans for additional capital projects that are traditionally not considered to be state supportable. This is a continuing process that is amended, as required, to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

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 State of 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:

In our opinion, based upon our audits, the financial statements listed in the accompanying table of contents on page 5, which collectively comprise the financial statements of the University of California (the "University"), a component unit of the State of California, present fairly, in all material respects, the respective financial position and plans' and trust's fiduciary net assets of the University, its aggregate discretely presented component units, and the University of California Retirement System (the "Plans") and the University of California Retiree Health Benefit Trust (the "Trust"), respectively, at June 30, 2009 and 2008, and the respective changes in financial position and cash flows of the University and its component units, and the changes in the Plans' and the Trust's fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in the significant accounting policies in the Notes to Financial Statements, the University adopted Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of July 1, 2008.

The Required Supplementary Information ("RSI") on pages 115 through 116 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the RSI. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

San Francisco, California

October 14, 2009

**UNIVERSITY OF CALIFORNIA
STATEMENTS OF NET ASSETS**

AT JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | |
|--|--------------------------|---------------------|--|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 487,943 | \$ 108,016 | \$ 183,216 | \$ 150,660 |
| Short-term investments | 2,036,487 | 4,068,848 | 359,426 | 346,492 |
| Investment of cash collateral | 1,844,661 | 2,096,106 | 163,680 | 210,224 |
| Investments held by trustees | 28,055 | 55,345 | | |
| Accounts receivable, net | 2,682,475 | 2,426,507 | 6,506 | 12,343 |
| Pledges receivable, net | 48,213 | 55,759 | 131,352 | 88,942 |
| Current portion of notes and mortgages receivable, net | 29,598 | 32,206 | 16 | 32 |
| Inventories | 166,229 | 157,920 | | |
| Department of Energy receivable | 95,458 | 82,552 | | |
| Other current assets | 144,823 | 133,328 | 4,024 | 2,370 |
| Current assets | 7,563,942 | 9,216,587 | 848,220 | 811,063 |
| Investments | 11,367,085 | 10,759,175 | 3,165,196 | 3,812,419 |
| Investment of cash collateral | 346,219 | 1,121,617 | 25,363 | 69,453 |
| Investments held by trustees | 909,105 | 735,104 | | |
| Pledges receivable, net | 44,815 | 50,399 | 270,419 | 331,803 |
| Notes and mortgages receivable, net | 298,516 | 287,107 | 486 | 502 |
| Department of Energy receivable | 66,438 | 31,494 | | |
| Capital assets, net | 21,276,915 | 19,593,214 | | |
| Other noncurrent assets | 183,802 | 188,104 | 19,284 | 21,523 |
| Noncurrent assets | 34,492,895 | 32,766,214 | 3,480,748 | 4,235,700 |
| Total assets | 42,056,837 | 41,982,801 | 4,328,968 | 5,046,763 |
| LIABILITIES | | | | |
| Accounts payable | 2,453,465 | 1,332,914 | 3,200 | 8,087 |
| Accrued salaries | 704,526 | 705,354 | | |
| Employee benefits | 212,667 | 195,385 | | |
| Deferred revenue | 960,688 | 968,686 | | |
| Collateral held for securities lending | 2,199,262 | 3,233,514 | 189,064 | 279,677 |
| Commercial paper | 665,525 | 550,000 | | |
| Current portion of long-term debt | 466,905 | 546,461 | | |
| Funds held for others | 200,856 | 270,118 | 130,917 | 92,584 |
| Department of Energy laboratories' liabilities | 83,212 | 66,374 | | |
| Other current liabilities | 840,441 | 839,289 | 19,197 | 24,539 |
| Current liabilities | 8,787,547 | 8,708,095 | 342,378 | 404,887 |
| Federal refundable loans | 219,662 | 212,715 | | |
| Self-insurance | 434,924 | 449,347 | | |
| Obligations under life income agreements | 28,359 | 31,074 | 142,740 | 156,911 |
| Long-term debt | 9,857,040 | 8,928,521 | | |
| Obligation to UCRP | 68,696 | | | |
| Obligations for retiree health benefits | 2,377,128 | 1,118,754 | | |
| Other noncurrent liabilities | 407,818 | 406,596 | 13,532 | 14,134 |
| Noncurrent liabilities | 13,393,627 | 11,147,007 | 156,272 | 171,045 |
| Total liabilities | 22,181,174 | 19,855,102 | 498,650 | 575,932 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 10,822,512 | 10,034,663 | | |
| Restricted: | | | | |
| Nonexpendable: | | | | |
| Endowments and gifts | 947,035 | 952,502 | 1,866,833 | 1,915,829 |
| Expendable: | | | | |
| Endowments and gifts | 4,243,073 | 5,340,738 | 1,951,656 | 2,527,896 |
| Other, including debt service, loans, capital projects and appropriations | 314,530 | 452,346 | | |
| Unrestricted | 3,548,513 | 5,347,450 | 11,829 | 27,106 |
| Total net assets | \$19,875,663 | \$22,127,699 | \$3,830,318 | \$4,470,831 |

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | |
|--|--------------------------|---------------------|--|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| OPERATING REVENUES | | | | |
| Student tuition and fees, net | \$ 2,096,817 | \$ 1,921,918 | | |
| Grants and contracts, net | | | | |
| Federal | 2,982,797 | 2,910,560 | | |
| State | 508,774 | 492,076 | | |
| Private | 1,016,687 | 912,409 | | |
| Local | 199,326 | 199,821 | | |
| Medical centers, net | 5,496,077 | 4,917,235 | | |
| Educational activities, net | 1,460,168 | 1,375,961 | | |
| Auxiliary enterprises, net | 1,143,962 | 1,122,295 | | |
| Department of Energy laboratories | 667,983 | 1,048,580 | | |
| Campus foundation private gifts | | | \$ 372,908 | \$ 533,548 |
| Other operating revenues, net | 495,457 | 558,044 | 3,093 | 2,942 |
| Total operating revenues | 16,068,048 | 15,458,899 | 376,001 | 536,490 |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 9,822,533 | 9,359,064 | | |
| UCRP benefits | 69,138 | 2,622 | | |
| Retiree health benefits | 1,501,937 | 1,355,362 | | |
| Other employee benefits | 1,818,301 | 1,684,330 | | |
| Scholarships and fellowships | 451,263 | 427,588 | | |
| Utilities | 309,842 | 298,440 | | |
| Supplies and materials | 2,210,319 | 2,101,594 | | |
| Depreciation and amortization | 1,197,404 | 1,093,620 | | |
| Department of Energy laboratories | 661,863 | 1,039,330 | | |
| Campus foundation grants | | | 444,730 | 527,572 |
| Other operating expenses | 2,799,176 | 2,793,086 | 13,496 | 12,084 |
| Total operating expenses | 20,841,776 | 20,155,036 | 458,226 | 539,656 |
| Operating loss | (4,773,728) | (4,696,137) | (82,225) | (3,166) |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State educational appropriations | 2,415,416 | 2,974,575 | | |
| State financing appropriations | 161,128 | 163,794 | | |
| Private gifts, net | 664,103 | 733,966 | | |
| Investment income: | | | | |
| Short Term Investment Pool and other, net | 304,132 | 348,029 | | |
| Endowment, net | 138,355 | 159,220 | | |
| Securities lending, net | 23,843 | 25,236 | 2,001 | 1,833 |
| Campus foundations | | | 61,754 | 76,008 |
| Net depreciation in fair value of investments | (1,278,281) | (191,887) | (742,735) | (142,807) |
| Interest expense | (355,882) | (400,369) | | |
| Loss on disposal of capital assets | (26,513) | (15,803) | | |
| Other nonoperating expenses, net | (3,209) | (9,252) | (33,712) | (11,740) |
| Net nonoperating revenues (expenses) | 2,043,092 | 3,787,509 | (712,692) | (76,706) |
| Loss before other changes in net assets | (2,730,636) | (908,628) | (794,917) | (79,872) |
| OTHER CHANGES IN NET ASSETS | | | | |
| State capital appropriations | 313,019 | 393,964 | | |
| Capital gifts and grants, net | 154,998 | 245,305 | | |
| Permanent endowments | 10,583 | 34,695 | 154,404 | 179,208 |
| Increase (decrease) in net assets | (2,252,036) | (234,664) | (640,513) | 99,336 |
| NET ASSETS | | | | |
| Beginning of year, as restated | 22,127,699 | 22,362,363 | 4,470,831 | 4,371,495 |
| End of year | \$19,875,663 | \$22,127,699 | \$3,830,318 | \$4,470,831 |

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | |
|--|--------------------------|--------------------|--|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Student tuition and fees | \$ 2,101,915 | \$ 1,916,970 | | |
| Grants and contracts | 4,792,250 | 4,701,366 | | |
| Medical centers | 5,441,705 | 4,830,034 | | |
| Educational activities | 1,456,141 | 1,344,471 | | |
| Auxiliary enterprises | 1,135,646 | 1,130,832 | | |
| Collection of loans from students and employees | 46,649 | 47,675 | | |
| Campus foundation private gifts | | | \$ 387,261 | \$ 550,625 |
| Payments to employees | (9,790,445) | (8,882,119) | | |
| Payments to suppliers and utilities | (5,232,710) | (5,020,301) | | |
| Payments for UCRP benefits | (2,371) | (22,204) | | |
| Payments for retiree health benefits | (244,387) | (234,413) | | |
| Payments for other employee benefits | (1,840,797) | (1,737,407) | | |
| Payments for scholarships and fellowships | (450,360) | (427,558) | | |
| Loans issued to students and employees | (54,394) | (61,421) | | |
| Payments to campuses and beneficiaries | | | (471,544) | (546,557) |
| Other receipts (payments) | 377,118 | 466,665 | (6,468) | 8,191 |
| Net cash provided (used) by operating activities | (2,264,040) | (1,947,410) | (90,751) | 12,259 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| State educational appropriations | 3,217,312 | 2,981,254 | | |
| Gifts received for other than capital purposes: | | | | |
| Private gifts for endowment purposes | 10,338 | 32,480 | 147,920 | 160,528 |
| Other private gifts | 660,890 | 702,648 | | |
| Receipt of retiree health contributions from UCRP | 14,512 | 16,952 | | |
| Payment of retiree health contributions to UCRHBT | (14,680) | (15,569) | | |
| Receipts from UCRHBT | 232,460 | 209,363 | | |
| Payments for retiree health benefits made on behalf of UCRHBT | (233,242) | (205,127) | | |
| Student direct lending receipts | 601,227 | 508,169 | | |
| Student direct lending payments | (601,227) | (508,169) | | |
| Other receipts (payments) | (66,167) | (13,831) | (362) | 2,832 |
| Net cash provided by noncapital financing activities | 3,821,423 | 3,708,170 | 147,558 | 163,360 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Commercial paper financing: | | | | |
| Proceeds from issuance | 891,647 | 527,807 | | |
| Payments of principal | (776,122) | (527,807) | | |
| Interest paid | (7,514) | (18,674) | | |
| State capital appropriations | 296,683 | 394,026 | | |
| State financing appropriations | 7,317 | 3,392 | | |
| Capital gifts and grants | 100,762 | 176,540 | | |
| Proceeds from debt issuance | 1,429,379 | 1,684,326 | | |
| Proceeds from the sale of capital assets | 1,454 | 9,057 | | |
| Purchase of capital assets | (2,875,925) | (2,440,692) | | |
| Refinancing or prepayment of outstanding debt | (87,516) | (663,888) | | |
| Scheduled principal paid on debt and capital leases | (472,186) | (281,411) | | |
| Interest paid on debt and capital leases | (339,788) | (316,021) | | |
| Other receipts | 31,348 | | | |
| Net cash used by capital and related financing activities | (1,800,461) | (1,453,345) | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from sales and maturities of investments | 66,382,974 | 72,001,318 | 526,138 | 767,356 |
| Purchase of investments | (66,218,195) | (72,889,296) | (616,413) | (1,030,345) |
| Investment income, net of investment expenses | 458,226 | 541,370 | 66,024 | 76,487 |
| Net cash provided (used) by investing activities | 623,005 | (346,608) | (24,251) | (186,502) |
| Net increase (decrease) in cash and cash equivalents | 379,927 | (39,193) | 32,556 | (10,883) |
| Cash and cash equivalents, beginning of year | 108,016 | 147,209 | 150,660 | 161,543 |
| Cash and cash equivalents, end of year | \$ 487,943 | \$ 108,016 | \$ 183,216 | \$ 150,660 |

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | |
|---|--------------------------|-----------------------|--|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | | | |
| Operating loss | \$ (4,773,728) | \$ (4,696,137) | \$ (82,225) | \$ (3,166) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | | | |
| Depreciation and amortization expense | 1,197,404 | 1,093,620 | (6,520) | (17,839) |
| Noncash gifts | | | | |
| Allowance for doubtful accounts | 49,602 | 1,234 | 19,253 | 896 |
| Loss on impairment of capital assets | | 1,483 | | |
| Change in assets and liabilities: | | | | |
| Investments | | | (743) | (754) |
| Accounts receivable | (55,209) | (462,274) | 5,394 | (6,687) |
| Pledges receivable | | | (346) | 28,624 |
| Investments held by trustees | (31,849) | (34,190) | | |
| Inventories | (8,309) | (14,666) | | |
| Other assets | (11,847) | (16,982) | 4,173 | 33,296 |
| Accounts payable | 474 | 128,798 | (5,290) | 2,589 |
| Accrued salaries | (828) | 435,417 | | |
| Employee benefits | 40,838 | 205,400 | | |
| Deferred revenue | 3,928 | 177,879 | 498 | (22,000) |
| Self-insurance | 1,274 | 37,160 | | |
| Obligations to life beneficiaries | | | (20,444) | (12,862) |
| Obligation to UCRP | 68,696 | | | |
| Obligations for retiree health benefits | 1,258,374 | 1,118,754 | | |
| Other liabilities | (2,860) | 77,094 | (4,501) | 10,162 |
| Net cash provided (used) by operating activities | \$ (2,264,040) | \$ (1,947,410) | \$ (90,751) | \$ 12,259 |
| SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION | | | | |
| Capital assets acquired through capital leases | \$ 87,853 | \$ 58,615 | | |
| Capital assets acquired with a liability at year-end | 93,164 | 99,786 | | |
| Investments held by trustees | (394) | (18,707) | | |
| State financing appropriations | 153,593 | 160,403 | | |
| Gifts of capital assets | 28,954 | 63,876 | \$ 303 | \$ 25,523 |
| Other noncash gifts | 17,563 | 40,080 | 29,389 | 92,998 |
| Gain (loss) on the disposal of capital assets | (26,513) | (15,803) | | |
| Debt service for, or refinancing of, lease revenue bonds | (201,455) | (166,751) | | |
| Refinancing of interim loans under lease-purchase agreements | (147,970) | (206,106) | | |
| Securities lending activity | (1,034,251) | (1,320,440) | (51,860) | 32,829 |
| Interest added to principal | | | 1,061 | 5,455 |
| Beneficial interest in charitable remainder trust | | | 4,768 | 7,324 |

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM AND RETIREE HEALTH BENEFIT TRUST

STATEMENTS OF PLANS' AND TRUST'S FIDUCIARY NET ASSETS

AT JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

| | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS) | | UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT) | | TOTAL UCRS AND UCRHBT | |
|--|---|---------------------|---|-----------------|-----------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| ASSETS | | | | | | |
| Investments | \$ 42,352,723 | \$ 52,532,169 | \$ 38,384 | \$ 19,773 | \$ 42,391,107 | \$ 52,551,942 |
| Participants' interest in mutual funds | 2,923,695 | 3,772,901 | | | 2,923,695 | 3,772,901 |
| Investment of cash collateral | 10,350,285 | 12,162,072 | | | 10,350,285 | 12,162,072 |
| Participant 403(b) loans | 107,192 | 96,790 | | | 107,192 | 96,790 |
| Accounts receivable: | | | | | | |
| Contributions from University and affiliates | 59,449 | 67,394 | 15,994 | 14,671 | 75,443 | 82,065 |
| Investment income | 113,586 | 150,615 | 18 | | 113,604 | 150,615 |
| Securities sales and other | 683,085 | 574,373 | 4,632 | 3,500 | 687,717 | 577,873 |
| Prepaid insurance premiums | | | 17,403 | 15,464 | 17,403 | 15,464 |
| Total assets | 56,590,015 | 69,356,314 | 76,431 | 53,408 | 56,666,446 | 69,409,722 |
| LIABILITIES | | | | | | |
| Payable to University | | | 2,061 | 2,604 | 2,061 | 2,604 |
| Payable for securities purchased | 1,213,209 | 771,217 | | | 1,213,209 | 771,217 |
| Member withdrawals, refunds and other payables | 191,091 | 177,701 | | | 191,091 | 177,701 |
| Collateral held for securities lending | 10,387,181 | 12,223,854 | | | 10,387,181 | 12,223,854 |
| Total liabilities | 11,791,481 | 13,172,772 | 2,061 | 2,604 | 11,793,542 | 13,175,376 |
| NET ASSETS HELD IN TRUST | | | | | | |
| Members' defined benefit plan benefits | 32,315,482 | 42,099,498 | | | 32,315,482 | 42,099,498 |
| Participants' defined contribution plan benefits | 12,483,052 | 14,084,044 | | | 12,483,052 | 14,084,044 |
| Retiree health benefits | | | 74,370 | 50,804 | 74,370 | 50,804 |
| Total net assets held in trust | \$44,798,534 | \$56,183,542 | \$74,370 | \$50,804 | \$44,872,904 | \$56,234,346 |

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 ASSETS

AT JUNE 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)

| | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS) | | UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT) | | TOTAL UCRS AND UCRHBT | |
|---|---|----------------------|---|------------------|-----------------------|----------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| ADDITIONS (REDUCTIONS) | | | | | | |
| Contributions: | | | | | | |
| Members and employees | \$ 920,940 | \$ 1,027,004 | | | \$ 920,940 | \$ 1,027,004 |
| Retirees | | | \$ 15,895 | \$ 16,952 | 15,895 | 16,952 |
| University | 8,044 | 10,894 | 235,115 | 226,192 | 243,159 | 237,086 |
| Total contributions | 928,984 | 1,037,898 | 251,010 | 243,144 | 1,179,994 | 1,281,042 |
| Investment income (expense), net: | | | | | | |
| Net depreciation in fair value of investments | (11,324,769) | (4,979,955) | | | (11,324,769) | (4,979,955) |
| Interest, dividends and other investment income | 1,395,099 | 1,784,761 | 528 | 691 | 1,395,627 | 1,785,452 |
| Securities lending income | 217,438 | 685,910 | | | 217,438 | 685,910 |
| Securities lending fees and rebates | (105,682) | (588,787) | | | (105,682) | (588,787) |
| Total investment income (expense), net | (9,817,914) | (3,098,071) | 528 | 691 | (9,817,386) | (3,097,380) |
| Interest income from contributions receivable | 5,246 | 5,700 | | | 5,246 | 5,700 |
| Total additions (reductions) | (8,883,684) | (2,054,473) | 251,538 | 243,835 | (8,632,146) | (1,810,638) |
| DEDUCTIONS | | | | | | |
| Benefit payments: | | | | | | |
| Retirement payments | 1,287,572 | 1,195,414 | | | 1,287,572 | 1,195,414 |
| Member withdrawals | 78,794 | 96,690 | | | 78,794 | 96,690 |
| Cost-of-living adjustments | 235,134 | 213,478 | | | 235,134 | 213,478 |
| Lump sum cashouts | 156,572 | 312,489 | | | 156,572 | 312,489 |
| Preretirement survivor payments | 33,487 | 32,315 | | | 33,487 | 32,315 |
| Disability payments | 35,984 | 36,098 | | | 35,984 | 36,098 |
| Death payments | 6,462 | 7,309 | | | 6,462 | 7,309 |
| Participant withdrawals | 630,889 | 910,365 | | | 630,889 | 910,365 |
| Total benefit payments | 2,464,894 | 2,804,158 | | | 2,464,894 | 2,804,158 |
| Insurance premiums: | | | | | | |
| Insured plans | | | 177,246 | 151,189 | 177,246 | 151,189 |
| Self-insured plans | | | 26,510 | 22,898 | 26,510 | 22,898 |
| Medicare Part B reimbursements | | | 22,211 | 17,105 | 22,211 | 17,105 |
| Total insurance premiums, net | 225,967 | 191,192 | | | 225,967 | 191,192 |
| Expenses: | | | | | | |
| Plan administration | 34,911 | 34,384 | 2,005 | 1,839 | 36,916 | 36,223 |
| Other | 1,519 | 1,211 | | | 1,519 | 1,211 |
| Total expenses | 36,430 | 35,595 | 2,005 | 1,839 | 38,435 | 37,434 |
| Transfer of assets to LLNS' defined benefit plan | | | | | | |
| Total deductions | 2,501,324 | 4,406,962 | 227,972 | 193,031 | 2,729,296 | 4,599,993 |
| Increase (decrease) in net assets held in trust | (11,385,008) | (6,461,435) | 23,566 | 50,804 | (11,361,442) | (6,410,631) |
| NET ASSETS HELD IN TRUST | | | | | | |
| Beginning of year | 56,183,542 | 62,644,977 | 50,804 | | 56,234,346 | 62,644,977 |
| End of year | \$ 44,798,534 | \$ 56,183,542 | \$ 74,370 | \$ 50,804 | \$ 44,872,904 | \$ 56,234,346 |

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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 general purpose financial statements as a component unit.

FINANCIAL REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

The University has ten legally separate, tax-exempt, affiliated campus foundations. The combined financial statements of the University of California campus foundations (campus foundations) are presented discretely in the University's financial statements because of the nature and significance of their relationship with the University, including their ongoing financial support of the University. Campus foundations may invest all or a portion of their investments in University-managed investment pools. Securities in these investment pools are included in the University's securities lending program. Accordingly, the campus foundations' investments in University-managed investment pools and their allocated share of the securities lending activities have been excluded from the University's financial statements and displayed in the campus foundations' column.

Specific assets and liabilities and all revenues and expenses associated with the Lawrence Berkeley National Laboratory (LBNL)—a major United States Department of Energy (DOE) national laboratory operated and managed by the University under contract directly with the DOE—are included in the financial statements. In addition, prior to October 1, 2007, specific assets and liabilities and all revenues and expenses associated with the Lawrence Livermore National Laboratory (LLNL)—another major DOE national laboratory operated and managed by the University under contract directly with the DOE through September 30, 2007—are also included in the financial statements.

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

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

Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board issued through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was adopted by the University during the year ended June 30, 2009. Statement No. 49 establishes criteria to ascertain whether certain events result in a requirement for the University to estimate the components of any expected pollution remediation costs and determine whether these costs should be accrued as a liability. The costs were estimated using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Previously, pollution remediation costs were accrued only if they were both probable of occurring and could be reasonably estimated.

In accordance with Statement No. 49 retrospective application is required. The cumulative effect of the accounting change described above to establish the initial \$41.8 million liability was recorded as an adjustment to the July 1, 2007 net assets as follows:

| (in thousands of dollars) | UNIVERSITY OF CALIFORNIA | | |
|--|---------------------------|---|---------------------|
| | JULY 1, 2007 NET ASSETS | | |
| | AS PREVIOUSLY REPORTED | EFFECT OF ADOPTION OF STATEMENT NO. 49 | AS RESTATED |
| Invested in capital assets, net of related debt | \$ 9,101,981 | | \$ 9,101,981 |
| Restricted: | | | |
| Nonexpendable: | | | |
| Endowments and gifts | 920,329 | | 920,329 |
| Expendable: | | | |
| Endowments and gifts | 5,457,743 | | 5,457,743 |
| Other, including debt service, loans, capital projects and appropriations | 397,698 | | 397,698 |
| Unrestricted | 6,526,429 | \$ (41,817) | 6,484,612 |
| Total net assets | \$22,404,180 | \$ (41,817) | \$22,362,363 |

The University also restated the 2008 financial statements for purposes of presenting comparative information for the year ended June 30, 2009. The effect of the changes from the adoption of Statement No. 49 on the University's financial statements for the year ended June 30, 2008 was to reduce the liability from \$41.8 million at June 30, 2007 to \$33.1 million at June 30, 2008 as follows:

| (in thousands of dollars) | UNIVERSITY OF CALIFORNIA | | |
|--|---------------------------|---|-------------|
| | YEAR ENDED JUNE 30, 2008 | | |
| | AS PREVIOUSLY REPORTED | EFFECT OF ADOPTION OF STATEMENT NO. 49 | AS RESTATED |
| Statement of Net Assets | | | |
| Other current liabilities | \$ 838,953 | \$ 336 | \$ 839,289 |
| Current liabilities | 8,707,759 | 336 | 8,708,095 |
| Other noncurrent liabilities | 373,846 | 32,750 | 406,596 |
| Noncurrent liabilities | 11,114,257 | 32,750 | 11,147,007 |
| Total liabilities | 19,822,016 | 33,086 | 19,855,102 |
| Unrestricted net assets | 5,380,536 | (33,086) | 5,347,450 |
| Total net assets | 22,160,785 | (33,086) | 22,127,699 |
| Statement of Revenues, Expenses and Changes in Net Assets | | | |
| Other operating expenses | 2,801,817 | (8,731) | 2,793,086 |
| Total operating expenses | 20,163,767 | (8,731) | 20,155,036 |
| Operating loss | (4,704,868) | 8,731 | (4,696,137) |
| Loss before other changes in net assets | (917,359) | 8,731 | (908,628) |
| Decrease in net assets | (243,395) | 8,731 | (234,664) |
| Statement of Cash Flows | | | |
| Operating loss | (4,704,868) | 8,731 | (4,696,137) |
| Changes in assets and liabilities: | | | |
| Other liabilities | 85,825 | (8,731) | 77,094 |

The adoption of Statement No. 49 did not result in any adjustments to the financial statements of the campus foundations, UCRS or UCRHBT.

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 as short-term investments. Certain campus foundations classify their deposits in the University's Short Term Investment Pool as a cash equivalent.

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

As a result of inactive or illiquid markets, investments in non-agency mortgage-backed fixed income securities are valued on the basis of their estimated future principal and interest payments using appropriate risk-adjusted discount rates. The University believes this approximates the fair value of these investments.

Investments also include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. Interests in private equity and real estate partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. Investments in absolute return partnerships are valued as of May 31, adjusted for cash receipts and cash disbursements through June 30. Interests in certain direct investments in real estate are estimated based upon independent appraisals. The University believes the carrying amount of these financial

instruments and real estate is a reasonable estimate of fair value at June 30. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, 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 assets.

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.

Participants' interest 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, includes reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, educational activities and amounts due from students, employees and faculty for services.

Pledges receivable, net. Unconditional pledges of private gifts to the University or to the campus foundations in the future, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the 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.

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 statement of net assets.

Inventories. Inventories, 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 net realizable value.

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 assets. 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. LANS, effective in 2006, and LLNS, effective as of October 1, 2007, operate and manage Los Alamos National Laboratory (LANL) and LLNL, respectively, under contracts directly with the DOE.

The University has an ongoing financial interest and financial responsibility in these separate entities, along with the other members, and the organizations are jointly controlled by the University and another member. The assets and liabilities and revenues and expenses of these joint ventures are not included in the University's financial statements. The University's investment in LANS and LLNS is accounted for using the equity method. Accordingly, subsequent to the applicable effective dates of the transition of laboratory management to LANS and LLNS, the University's statement of net assets 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 assets 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 assets for pension or retiree health obligations related to these laboratories, the University records a receivable from the DOE. The University's statement of cash flows includes the cash flows related to DOE reimbursements for pension and/or health benefits attributable to any of these laboratories.

Capital assets. Land, infrastructure, buildings and improvements, equipment, libraries and collections and special collections are recorded at cost at the date of acquisition, or estimated fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results. Capital leases are recorded at the 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. 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. 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:

| | |
|-----------------------------|-------------|
| Infrastructure | 25 years |
| Buildings and improvements | 15–33 years |
| Equipment | 2–20 years |
| Computer software | 3–7 years |
| Library books and materials | 15 years |

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 during the temporary investment of project-related borrowings.

Deferred revenue. Deferred 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 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 assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Obligations under life income agreements. Obligations under life income agreements represent actuarially-determined liabilities under gift annuity and life income contracts.

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 generally accrued as a liability.

Net assets. Net assets are required to be classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt. 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 net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally-imposed restrictions, which must be retained in perpetuity by the University or the campus foundations, are classified as nonexpendable net assets. Such assets include the University and campus foundation permanent endowment funds.

Expendable. Net assets whose use by the University or the 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 are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. The University's unrestricted net assets may be designated for specific purposes by management or The Regents. The campus foundations' unrestricted net assets may be designated for specific purposes by their Boards of Trustees. Substantially all of the University's unrestricted net assets are allocated for academic and research initiatives or programs, for capital programs or for other purposes.

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

Revenues and expenses. Operating revenues of the University include receipts from student tuition and fees, grants and contracts for specific operating activities and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the University are presented in the statement of revenues, expenses and changes in net assets 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, 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. Private gift or capital gift revenues associated with campus foundation grants to the University are recorded by the University as the gifts are made.

Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense and gain or 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 assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for 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. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

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 are incurred to support either educational operations or other specific operating purposes. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant operating revenue.

Subsequent to June 30, 2009, the state of California finalized their State Budget Act that required reversion to the state of a portion of the University's 2009 state educational appropriations for the year ended June 30, 2009. The University's statement of net assets as of June 30, 2009 includes a liability to the state totaling \$795.0 million, primarily a result of \$715.5 million of state educational appropriation reversions.

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, 2009, the facilities and administrative cost recovery totaled \$824.9 million, \$621.6 million from federally-sponsored programs and \$203.3 million from other sponsors. For the year ended June 30, 2008, the facilities and administrative cost recovery totaled \$778.6 million, \$602.4 million from federally-sponsored programs and \$176.2 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.

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

Scholarship allowances in the following amounts are recorded as an offset to the following revenues for the years ended June 30, 2009 and 2008:

| (in thousands of dollars) | 2009 | 2008 |
|-------------------------------|------------------|------------------|
| Student tuition and fees | \$ 565,785 | \$ 506,582 |
| Auxiliary enterprises | 142,143 | 127,382 |
| Other operating revenues | 7,078 | 7,349 |
| Scholarship allowances | \$715,006 | \$641,313 |

UCRP benefits and obligation to UCRP. The University's cost for campus and medical center UCRP benefits expense is based upon the annual required contribution to UCRP, as actuarially determined. Campus and medical center contributions toward UCRP benefits, at rates determined by the University, are made to UCRP and reduce the University's obligation to UCRP in the statement of net assets.

Both current employees and retirees at LBNL participate in UCRP. Current employees at both LANL and LLNL are no longer accruing benefits in UCRP. However, UCRP retains the obligation for retirees and terminated vested members at these locations as of the date these contracts were terminated. The annual required contribution for the combined DOE laboratories is actuarially determined, independently from the campuses and medical centers, and included with the DOE laboratory expense in the statement of revenues, expenses and changes in net assets.

The University makes contributions to UCRP in behalf of LBNL employees and is reimbursed by the DOE, based upon rates that are identical to those authorized by The Regents for campus and medical center employees. The University also makes contributions to UCRP in behalf of LANL and LLNL retirees and terminated vested members, whose benefits were retained in UCRP, based upon a contractual arrangement with the DOE that incorporates a formula targeted to maintain the LANL and LLNL segments within UCRP for these retirees and terminated vested members at a 100 percent funded level. These contributions reduce the University's obligation to UCRP in the statement of net assets. These University contributions are also reimbursed by the DOE. The reimbursement from the DOE is included as DOE laboratory revenue in the statement of revenues, expenses and changes in net assets.

The University records a receivable from the DOE for the portion of the University's obligation to UCRP attributable to the DOE laboratories.

Campus and medical center contributions to UCRP, University contributions to UCRP in behalf of the DOE national laboratories, and the corresponding reimbursements from the DOE are operating activities in the statement of cash flows.

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

LBNL participates in the University's retiree health plans. The annual required contribution for LBNL is actuarially determined independently from the University's campuses and medical centers, and included with the DOE laboratory expense in the statement of revenues, expenses and changes in net 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. These contributions, in the form of direct payments, also reduce the University's obligation for retiree health benefits in the statement of net assets. The reimbursement from the DOE is included as DOE laboratory revenue in the statement of revenues, expenses and changes in net assets.

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

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

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

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

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

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

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

Interest rate swap agreements. 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.

In accordance with GASB standards, the fair value of the interest rate swap agreements is not reported in the University's statement of net assets and changes in fair value are not recognized in the statement of revenues, expenses and changes in net assets.

Tax exemption. The University and the campus foundations are qualified as tax-exempt organizations under the provisions of Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income. UCRS plans are qualified under Section 401(a) and the related trusts are tax exempt under Section 501(a) of the Internal Revenue Code. UCRHBT is tax-exempt under Section 115 of the Internal Revenue Code.

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.

Comparative information. In connection with the preparation of the June 30, 2009 statement of revenues, expenses and changes in net assets, the University concluded that internal departmental recharges associated with utility costs in 2008 should have been credited against utilities expense rather than other operating expenses. As a result, revisions in classification have been made in the June 30, 2008 financial statements to reduce utilities expense and increase other operating expenses by \$93.5 million.

The effect on prior period financial statements was not material. However, management elected to make the revisions to the 2008 presentation to conform to the 2009 presentation. This revision in classification to the University's 2008 financial statements had no effect on previously reported operating revenues, operating expenses or decrease in net assets; total assets, liabilities and net assets; or net decrease in cash.

New accounting pronouncements. In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the University's fiscal year beginning July 1, 2009. This Statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life.

The University is evaluating the effect that Statement No. 51 will have on its financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, also effective for the University's fiscal year beginning July 1, 2009. This Statement requires the University to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as net appreciation or depreciation in the fair value of investments.

The University has determined that the interest rate swaps entered into in conjunction with certain Medical Center Pooled Revenue Bonds are derivative instruments that meet the criteria for an effective hedge and is continuing to evaluate the effect that Statement No. 53 will have on its financial statements with respect to securities in investment portfolios that may be derivative instruments.

1. CASH AND CASH EQUIVALENTS

The University maintains centralized management for substantially all of its cash. Accounts are authorized at financial institutions that maintain a minimum credit quality rating of A from an independent bond rating agency. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

At June 30, 2009 and 2008, the carrying amount of the University's demand deposits, generally held in four nationally recognized banking institutions, was \$487.9 million and \$108.0 million, respectively, compared to bank balances of \$463.8 million and \$72.2 million, respectively. Deposits in transit and cash awaiting investment are the primary differences.

Bank balances of \$447.8 million in 2009 are insured by the Federal Deposit Insurance Corporation (FDIC). Under the FDIC's Transaction Account Guarantee Program (TAGP) adopted in November 2008, the FDIC fully insures the University's bank balances. The TAGP is currently effective through December 31, 2009. If the TAGP is not extended at that time, the FDIC insures the uncollateralized bank balances for \$1.0 million at the University's four major nationally recognized banking institutions, in addition to the FDIC insurance provided at the University's remaining banking institutions that have less significant bank balances.

The University does not have a 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 were \$2.2 million and \$3.7 million at June 30, 2009 and 2008, respectively.

The carrying amount of the campus foundations' cash and cash equivalents at June 30, 2009 and 2008 was \$183.2 million and \$150.7 million, respectively, compared to bank balances of \$106.9 million and \$83.1 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 \$64.5 million and \$54.9 million at June 30, 2009 and 2008, respectively, with the remaining uncollateralized bank balances insured by the FDIC under the TAGP. 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 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, 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 Investment Committee 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 up to 40 years.

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

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds.

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, or represent the University's estimated interest in externally held irrevocable trusts.

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 a modest 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. Derivative contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. Real estate investments are authorized for both GEP and UCRS. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for GEP and UCRS. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The Regents has also authorized certain employee account balances in defined contribution plans included as part of the UCRS' investments to be invested in mutual funds. The participants' interest in mutual funds is not managed by the Chief Investment Officer and totaled \$2.92 billion and \$3.77 billion at June 30, 2009 and 2008, respectively.

Investments authorized by The Regents for 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 55 days. The fair value of the UCRHBT's investment in this portfolio was \$38.4 million and \$19.8 million at June 30, 2009 and 2008, respectively.

Campus foundations' investments in pools managed by the Chief Investment Officer are classified for investment type purposes as either commingled balanced funds or commingled money market funds in the campus foundations' column depending on whether they are invested in GEP or STIP, respectively. Similarly, UCRS' investment in STIP is classified in the commingled money market category in the UCRS column.

The composition of investments, by investment type, at June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|--------------------------|---------------------|--|--------------------|---|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Equity securities: | | | | | | |
| Domestic | \$ 1,185,621 | \$ 1,209,086 | \$ 146,234 | \$ 245,463 | \$ 12,154,737 | \$ 19,868,126 |
| Foreign | 1,061,202 | 1,117,811 | 68,064 | 97,456 | 7,493,036 | 7,803,550 |
| Equity securities | 2,246,823 | 2,326,897 | 214,298 | 342,919 | 19,647,773 | 27,671,676 |
| Fixed or variable income securities: | | | | | | |
| U.S. government guaranteed: | | | | | | |
| U.S. Treasury bills, notes and bonds | 1,113,945 | 946,865 | 99,449 | 130,345 | 2,368,476 | 1,577,392 |
| U.S. Treasury strips | 69,125 | 29,659 | | | 101,463 | 1,204,670 |
| U.S. TIPS | 272,345 | 424,552 | | | 2,649,386 | 2,754,366 |
| U.S. government-backed securities | 3,331 | 3,637 | 3,267 | 4,406 | 12,964 | 14,158 |
| U.S. government-backed–asset-backed securities | | | 266 | 2,240 | | |
| U.S. government guaranteed | 1,458,746 | 1,404,713 | 102,982 | 136,991 | 5,132,289 | 5,550,586 |
| Other U.S. dollar denominated: | | | | | | |
| Corporate bonds | 4,053,628 | 3,259,085 | 76,231 | 61,324 | 2,245,234 | 3,060,306 |
| Commercial paper | 1,283,124 | 2,937,981 | | | | 127,983 |
| U.S. agencies | 839,915 | 1,398,261 | 9,730 | 82,836 | 2,598,653 | 2,887,262 |
| U.S. agencies–asset-backed securities | 199,159 | 137,200 | 62,373 | 2,101 | 864,140 | 1,248,427 |
| Corporate–asset-backed securities | 217,404 | 241,409 | 9,808 | 11,947 | 1,382,042 | 1,731,551 |
| Supranational/foreign | 793,404 | 828,033 | 676 | 620 | 1,085,083 | 1,510,699 |
| Other | 55 | 15 | 1,753 | | | |
| Other U.S. dollar denominated | 7,386,689 | 8,801,984 | 160,571 | 158,828 | 8,175,152 | 10,566,228 |
| Foreign currency denominated: | | | | | | |
| Government/sovereign | 126,096 | 189,068 | | | | 1,125,748 |
| Corporate | 3,627 | 5,072 | | | 37,143 | 52,591 |
| Foreign currency denominated | 129,723 | 194,140 | | | 37,143 | 1,178,339 |
| Commingled funds: | | | | | | |
| Absolute return funds | 1,234,209 | 1,355,318 | 397,568 | 412,024 | 1,898,974 | 648,683 |
| Balanced funds | | | 590,966 | 767,550 | | |
| U.S. equity funds | 103,231 | 29,946 | 329,822 | 420,782 | 624,697 | 309,890 |
| Non-U.S. equity funds | 317,171 | 431,595 | 395,502 | 584,586 | 1,684,201 | 2,259,199 |
| U.S. bond funds | 42,106 | 40,243 | 205,569 | 168,668 | | |
| Non-U.S. bond funds | | | 32,289 | 49,544 | | |
| Real estate investment trusts | 66 | 104 | 42,362 | 73,877 | 56,463 | 44,586 |
| Money market funds | 54,323 | 26,895 | 409,199 | 357,418 | 1,312,351 | 508,340 |
| Commingled funds | 1,751,106 | 1,884,101 | 2,403,277 | 2,834,449 | 5,576,686 | 3,770,698 |
| Private equity | 452,630 | 503,322 | 268,599 | 317,587 | 1,845,065 | 1,859,887 |
| Mortgage loans | 754,266 | 586,387 | 13,305 | 10,532 | | |
| Insurance contracts | | | | | 962,168 | 824,201 |
| Real estate | 226,516 | 288,078 | 113,990 | 139,720 | 982,105 | 1,110,554 |
| Externally held irrevocable trusts | 157,800 | 256,057 | 17,464 | 27,001 | | |
| Other investments | 7,047 | 6,368 | 230,136 | 190,884 | (5,658) | |
| Campus foundations' investments with the University | (922,180) | (1,031,751) | | | | |
| UCRS investment in STIP | (245,594) | (392,273) | | | | |
| Total investments | 13,403,572 | 14,828,023 | 3,524,622 | 4,158,911 | \$42,352,723 | \$52,532,169 |
| Less: Current portion | (2,036,487) | (4,068,848) | (359,426) | (346,492) | | |
| Noncurrent portion | \$11,367,085 | \$10,759,175 | \$3,165,196 | \$3,812,419 | | |

Investment Risk Factors

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

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

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.

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, the two-year Treasury note, has no credit risk). 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, UCFS and GEP by virtue of the benchmarks chosen for the fixed income portion of those pools.

Fixed income benchmarks for TRIP include the Barclays Capital Aggregate Credit Index, Barclays Capital Aggregate Securitized Index, the Merrill Lynch High-Yield Cash Pay Index and the Barclays Capital Aggregate Government Index. The TRIP fixed income benchmark is comprised of 60 percent high grade corporate bonds, 13.3 percent mortgage/asset-backed securities, and 13.3 percent below investment grade securities, all of which carry some degree of credit risk. The remaining 13.3 percent is government-issued bonds.

Fixed income benchmarks for UCFS and GEP include the Citigroup Large Pension Fund Index and Barclays Capital Aggregate Index and are comprised of approximately 30 percent high grade corporate bonds and 30-35 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35-40 percent is government-issued bonds.

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

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

The credit risk profile for fixed or variable income securities at June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|--------------------------|-------------|--|-----------|---|-------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Fixed or variable income securities: | | | | | | |
| U.S. government guaranteed | \$1,458,746 | \$1,404,713 | \$102,982 | \$136,991 | \$5,132,289 | \$5,550,586 |
| Other U.S. dollar denominated: | | | | | | |
| AAA | 1,286,231 | 2,040,336 | 83,573 | 96,884 | 4,499,623 | 5,919,687 |
| AA | 595,114 | 829,005 | 11,091 | 14,406 | 149,758 | 201,343 |
| A | 2,143,284 | 1,261,356 | 25,743 | 13,318 | 694,734 | 937,490 |
| BBB | 1,690,608 | 1,504,620 | 23,214 | 14,878 | 1,115,705 | 1,675,129 |
| BB | 181,839 | 102,045 | 4,376 | 6,025 | 607,875 | 651,869 |
| B | 120,359 | 121,800 | 2,705 | 3,240 | 774,471 | 965,527 |
| CCC or below | 68,744 | 408 | 7,828 | | 331,681 | 2,979 |
| A-1 / P-1 / F-1 | 1,283,124 | 2,937,981 | 112 | | | 127,983 |
| Not rated | 17,386 | 4,433 | 1,929 | 10,077 | 1,305 | 84,221 |
| Foreign currency denominated: | | | | | | |
| AA | 126,096 | 189,068 | | | | 1,125,748 |
| A | | | | | | 5,946 |
| B | 3,627 | 5,072 | | | 37,143 | 46,645 |
| Commingled funds: | | | | | | |
| U.S. bond funds: Not rated | 42,106 | 40,243 | 205,569 | 168,668 | | |
| Non-U.S. bond funds: Not rated | | | 32,289 | 49,544 | | |
| Money market funds: Not rated | 54,323 | 26,895 | 409,199 | 357,418 | 1,312,351 | 508,340 |
| Mortgage loans: Not rated | 754,266 | 586,387 | 13,305 | 10,532 | | |
| Insurance contracts: Not rated | | | | | 962,168 | 824,201 |

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.

The University's 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 is remote.

Some of the investments at certain of the campus foundations are exposed to custodial credit risk. These investments may be uninsured, or not registered in the name of the campus foundation and held by a custodian.

Custodial credit risk exposure related to investments is as follows:

| | <i>(in thousands of dollars)</i> | |
|--|--|------------------|
| | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | |
| | 2009 | 2008 |
| Equity securities: | | |
| Domestic | \$ 53,477 | \$ 91,941 |
| Foreign | 855 | 1,212 |
| Fixed or variable income securities: | | |
| U.S. government guaranteed: | | |
| U.S. Treasury bills, notes and bonds | 61,717 | 92,801 |
| U.S. government-backed–asset-backed securities | | 2,226 |
| Other U.S. dollar denominated: | | |
| U.S. agencies | 6,010 | 2,224 |
| Other | 1,562 | |
| Custodial credit risk exposure | \$123,621 | \$190,404 |

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 UCFS portfolios may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal 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 portion 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 UCFS portfolios include a limit of no more than 3 percent of the 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.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of total investments at June 30, 2009 and 2008 are as follows:

| | <i>(in thousands of dollars)</i> | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | |
|---|--|------------|--|-----------|
| | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | 2009 | 2008 |
| Fannie Mae | | \$ 783,608 | \$ 44,151 | \$ 62,897 |
| Baupost Bermuda Value Partners-IV | | | 29,186 | |
| Silchester International Value Equity Trust | | | 25,796 | 29,309 |
| Gryphon International EAFE Growth Fund | | | | 28,613 |

Interest Rate Risk

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

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

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

The effective durations for fixed or variable income securities at June 30, 2009 and 2008 are as follows:

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|--|--------------------------|------|--|------|---|------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Fixed or variable income securities: | | | | | | |
| U.S. government guaranteed: | | | | | | |
| U.S. Treasury bills, notes and bonds | 2.0 | 1.0 | 4.2 | 4.5 | 1.9 | 0.7 |
| U.S. Treasury strips | 9.1 | 8.0 | | | 12.1 | 11.4 |
| U.S. TIPS | 4.1 | 5.3 | | | 5.0 | 5.3 |
| U.S. government-backed securities | 6.0 | 6.3 | 3.9 | 3.8 | 6.0 | 6.3 |
| U.S. government-backed–asset-backed securities | | | 3.9 | 3.9 | | |
| Other U.S. dollar denominated: | | | | | | |
| Corporate bonds | 3.0 | 2.6 | 3.6 | 4.0 | 5.8 | 7.6 |
| Commercial paper | 0.0 | 0.0 | | | 0.0 | 0.0 |
| U.S. agencies | 2.0 | 1.4 | 4.0 | 2.5 | 3.5 | 2.5 |
| U.S. agencies–asset-backed securities | 2.8 | 4.4 | 2.1 | 3.3 | 4.4 | 4.6 |
| Corporate–asset-backed securities | 7.0 | 3.8 | 0.5 | 0.6 | 5.5 | 4.1 |
| Supranational / foreign | 7.1 | 2.8 | 5.0 | 0.0 | 6.8 | 7.2 |
| Other | 5.4 | 0.6 | 4.1 | | | |
| Foreign currency denominated: | | | | | | |
| Government/sovereign | 6.7 | 6.6 | | | | 6.6 |
| Corporate | 4.1 | 3.9 | | | 4.1 | 6.1 |
| Commingled funds: | | | | | | |
| U.S. bond funds | 4.3 | 4.7 | 5.1 | 4.6 | | |
| Non-U.S. bond funds | | | 2.8 | 5.1 | | |
| Money market funds | 0.0 | 0.0 | 1.6 | 1.8 | 1.7 | 1.8 |
| Mortgage loans | 0.0 | 0.0 | 5.2 | 5.4 | | |
| Insurance contracts | | | | | 0.0 | 0.0 |

The University considers the effective durations for commercial paper, mortgage loans, insurance contracts and money market funds, with the exception of STIP, 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 may also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities, callable bonds and convertible 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, 2009 and 2008, 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 | |
|-------------------------------------|--------------------------|--------------------|--|-----------------|---|--------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Mortgage-backed securities | \$ 471,171 | \$ 339,991 | \$ 56,339 | \$ 72,953 | \$ 1,908,498 | \$ 2,289,645 |
| Collateralized mortgage obligations | 11,251 | | 5,592 | 8,048 | 253,604 | 46,824 |
| Other asset-backed securities | 7,187 | 4,139 | 7,871 | 11,947 | 85,175 | 24,183 |
| Variable-rate securities | 389,792 | 609,359 | | | 25,017 | 67,771 |
| Callable bonds | 795,288 | 1,500,966 | 420 | 506 | 2,095,604 | 2,770,965 |
| Total | \$1,674,689 | \$2,454,455 | \$70,222 | \$93,454 | \$4,367,898 | \$5,199,388 |

Mortgage-Backed Securities. These securities are issued primarily by Fannie Mae, Ginnie Mae and Freddie Mac 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 a rising interest rate environment, 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, 2009 and 2008, the effective durations for these securities are as follows:

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|-------------------------------------|--------------------------|------|--|------|---|------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Mortgage-backed securities | 4.5 | 4.3 | 2.0 | 2.5 | 5.9 | 5.0 |
| Collateralized mortgage obligations | 1.7 | | 2.0 | 1.7 | 2.4 | 5.2 |
| Other asset-backed securities | 1.1 | 3.2 | 0.5 | 0.6 | 0.7 | 4.0 |
| Variable-rate securities | 0.1 | 0.2 | | | 1.8 | 5.2 |
| Callable bonds | 2.4 | 1.6 | 8.6 | | 3.2 | 2.7 |

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, 2009 and 2008, the foreign currency risk expressed in U.S. dollars, organized by currency denomination and investment type, is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|--|--------------------------|--------------------|--|------------------|---|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Equity securities: | | | | | | |
| Euro | \$ 330,165 | \$ 390,493 | \$ 15,892 | \$ 27,057 | \$ 2,299,494 | \$ 2,647,165 |
| Japanese Yen | 222,312 | 208,201 | 10,634 | 16,069 | 1,589,171 | 1,473,375 |
| British Pound | 196,468 | 211,126 | 10,246 | 13,065 | 1,392,245 | 1,489,215 |
| Canadian Dollar | 79,350 | 79,614 | 3,025 | 3,447 | 596,213 | 615,458 |
| Swiss Franc | 79,115 | 79,823 | 6,610 | 9,216 | 542,002 | 539,707 |
| Australian Dollar | 60,646 | 59,037 | 2,566 | 3,538 | 456,496 | 437,870 |
| Hong Kong Dollar | 33,380 | 25,676 | 7,626 | 4,179 | 215,023 | 170,512 |
| Swedish Krona | 20,083 | 19,661 | | | 145,396 | 143,274 |
| Singapore Dollar | 16,431 | 14,990 | 416 | 1,810 | 108,269 | 96,803 |
| Danish Krone | 8,102 | 9,342 | 1,063 | 1,253 | 59,108 | 68,424 |
| Norwegian Krone | 7,259 | 9,120 | 1,036 | 597 | 49,041 | 70,487 |
| South Korean Won | 2,006 | 2,943 | 336 | 502 | 9,768 | 13,532 |
| New Zealand Dollar | 841 | 741 | | | 6,241 | 5,341 |
| South African Rand | 1,255 | 1,879 | 394 | 527 | 6,114 | 8,639 |
| Thai Baht | 747 | 2,309 | | | 3,638 | 10,617 |
| Other | 3,042 | 2,856 | 8,220 | 16,196 | 14,817 | 13,131 |
| Subtotal | 1,061,202 | 1,117,811 | 68,064 | 97,456 | 7,493,036 | 7,803,550 |
| Fixed income securities: | | | | | | |
| Euro | 63,598 | 99,699 | | | 36,740 | 609,937 |
| Japanese Yen | 48,038 | 67,240 | | | | 400,358 |
| British Pound | 9,576 | 13,685 | | | 403 | 81,620 |
| Canadian Dollar | 2,852 | 4,261 | | | | 31,316 |
| Danish Krone | 1,005 | 1,527 | | | | 9,094 |
| Polish Zloty | 926 | 2,011 | | | | 11,977 |
| Swiss Franc | 828 | 1,371 | | | | 8,161 |
| Swedish Krona | 768 | 1,381 | | | | 8,225 |
| Australian Dollar | 750 | 808 | | | | 4,811 |
| Malaysian Ringgit | 591 | 854 | | | | 5,086 |
| Singapore Dollar | 468 | 729 | | | | 4,338 |
| Norwegian Krone | 323 | 574 | | | | 3,416 |
| Subtotal | 129,723 | 194,140 | | | 37,143 | 1,178,339 |
| Commingled funds: | | | | | | |
| Various currency denominations: | | | | | | |
| Balanced funds | | | 152,012 | 204,990 | | |
| Non-U.S. equity funds | 317,171 | 431,595 | 373,638 | 494,624 | 1,684,201 | 2,259,199 |
| Non-U.S. bond funds | | | 25,485 | 29,683 | | |
| Real estate investment trusts | | | 17,005 | 21,526 | | |
| Subtotal | 317,171 | 431,595 | 568,140 | 750,823 | 1,684,201 | 2,259,199 |
| Private equity: | | | | | | |
| Euro | 1,114 | 1,425 | | | 17,400 | 20,114 |
| Swedish Krona | 42 | | | | 937 | |
| Real estate: | | | | | | |
| Hong Kong Dollar | 1,716 | | | | 16,443 | |
| Japanese Yen | 1,505 | | | | 14,423 | |
| Other | 3,031 | | | | 29,041 | |
| Subtotal | 7,408 | 1,425 | | | 78,244 | 20,114 |
| Total exposure to foreign currency risk | \$1,515,504 | \$1,744,971 | \$636,204 | \$848,279 | \$9,292,624 | \$11,261,202 |

Alternative Investment Risks

Alternative investments are defined as marketable alternatives (hedge funds), limited partnerships, private equity and venture capital funds. Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or off-shore. 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. Generally, these 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.

Futures, Forward Contracts, Options and Swaps

The University may include futures, forward contracts, options and swap contracts in its investment portfolios. The Board of Trustees for each campus foundation may also authorize these contracts 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. Futures contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker the next day for the amount of the previous day's mark to market. The amount that is settled in cash with the broker the next day is the carrying and fair value of the futures contracts that is included in the statement of net assets.

Forward contracts are similar to futures, except they are custom contracts and are not exchange-traded. They are the primary instrument used in currency management.

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 records premiums paid for the purchase of these options in the statement of net assets 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 assets. Neither the University nor UCFS held any option contracts at June 30, 2009 or June 30, 2008.

A 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, interest rate or currency. The University records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. Neither the University nor UCFS held any interest rate swap contracts for investment purposes at June 30, 2009 or June 30, 2008. However, the University did enter into interest rate swap agreements in connection with its variable rate bonds.

The University could be exposed to risk if the counterparty to the contracts was unable to meet the terms of the contracts. Counterparty credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counterparty to meet the terms of an option contract that the University may exercise. Either risk is remote for exchange-traded contracts. Additional risk may arise from futures contracts traded in non-U.S. markets as the foreign futures contracts are cleared on, and subject to, the rules of foreign boards of trade. In addition, funds provided for foreign futures contracts may not be afforded the same protection as funds received in respect of U.S. transactions.

The University seeks to control counterparty credit risk in all derivative contracts that are not exchange-traded through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by the Chief Investment Officer.

The University's Investment Pools

The composition of the University of California's investments at June 30, 2009, by investment pool, is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | | | TOTAL |
|---|--------------------------|--------------------|--------------------|------------------|---------------------|
| | STIP | TRIP | GEP | OTHER | |
| Equity securities: | | | | | |
| Domestic | \$ 184,600 | | \$ 930,213 | \$ 70,808 | \$ 1,185,621 |
| Foreign | | 128,424 | 918,669 | 14,109 | 1,061,202 |
| Fixed or variable income securities: | | | | | |
| U.S. government guaranteed | \$ 1,131,684 | 52,930 | 232,848 | 41,284 | 1,458,746 |
| Other U.S. dollar denominated | 5,641,612 | 1,062,226 | 634,410 | 48,441 | 7,386,689 |
| Foreign currency denominated | | | 129,723 | | 129,723 |
| Commingled funds | | 16,225 | 1,657,221 | 77,660 | 1,751,106 |
| Private equity | | | 440,976 | 11,654 | 452,630 |
| Mortgage loans | 754,266 | | | | 754,266 |
| Real estate | | | 210,531 | 15,985 | 226,516 |
| Externally held irrevocable trusts | | | | 157,800 | 157,800 |
| Other investments | | | (253) | 7,300 | 7,047 |
| Subtotal | 7,527,562 | 1,444,405 | 5,154,338 | 445,041 | 14,571,346 |
| Campus foundations' investments with the University | (380,856) | | (433,661) | (107,663) | (922,180) |
| UCRS investment in STIP | (245,594) | | | | (245,594) |
| Total investments | \$6,901,112 | \$1,444,405 | \$4,720,677 | \$337,378 | \$13,403,572 |

The total investment return based upon unit values, representing the combined income plus net appreciation or depreciation in the fair value of investments, for the year ended June 30, 2009 was (1.6) percent for TRIP, (18.2) percent for GEP and (16.6) percent for UCRS. The investment return for STIP distributed to participants, representing combined income and realized gains or losses, during the same period, was 3.6 percent. Other investments consist of numerous, small portfolios of investments, or individual securities, each with its 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 of California as the manager of the pool.

The campus foundations may purchase or redeem shares in GEP 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.

UCRS

UCRS had \$245.6 million and \$392.3 million invested in STIP at June 30, 2009 and 2008, respectively. These investments are also excluded from the University's statement of net assets and are included in the UCRS' statement of plans' fiduciary net assets. They are categorized as commingled funds in the composition of investments. STIP investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by, and distributed to, UCRS totaling \$9.1 million and \$13.8 million for the years ended June 30, 2009 and 2008, respectively.

Campus Foundations

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 assets and included in the campus foundations' statement of net assets. Under the accounting policies elected by each separate foundation, certain foundations classify all or a portion of their investment in STIP 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 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, 2009 and 2008 is as follows:

| (in thousands of dollars) | 2009 | 2008 |
|---|------------------|-------------------|
| STIP | \$ 380,856 | \$ 364,872 |
| GEP | 433,661 | 539,591 |
| Other investment pools | 107,663 | 127,288 |
| Campus foundations' investments with the University | 922,180 | 1,031,751 |
| Classified as cash and cash equivalents by campus foundations | (65,122) | (56,470) |
| Classified as investments by campus foundations | \$857,058 | \$ 975,281 |

Endowment investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by, and distributed to, the campus foundations totaling \$26.4 million and \$34.0 million for the years ended June 30, 2009 and 2008, respectively.

Agency Relationships with the University

STIP and GEP are external investment pools and include investments in behalf of external organizations that are associated with the University, although not significant or financially accountable to the University. These organizations are not required to invest in these pools. As with UCRS and campus foundations, 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 assets at June 30, 2009 and 2008 are as follows:

| (in thousands of dollars) | 2009 | 2008 |
|----------------------------------|----------------------|----------------------|
| Short-term investments: | | |
| STIP | \$ 68,834 | \$ 104,291 |
| GEP | 116,897 | 144,963 |
| Other investment pools | 15,125 | 20,864 |
| Total agency assets | \$200,856 | \$270,118 |
| Funds held for others | \$200,856 | \$270,118 |

The composition of the net assets at June 30, 2009 and 2008 for STIP and GEP is as follows:

(in thousands of dollars)

| | STIP | | GEP | |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Investments | \$ 7,527,562 | \$ 9,286,253 | \$ 5,154,338 | \$ 6,384,873 |
| Investment of cash collateral | 1,388,274 | 2,363,731 | 719,873 | 992,888 |
| Securities lending collateral | (1,393,223) | (2,374,038) | (722,439) | (998,108) |
| Other assets (liabilities), net | 497,146 | 117,676 | (75,071) | 18,110 |
| Net assets | \$8,019,759 | \$9,393,622 | \$5,076,701 | \$6,397,763 |

The changes in net assets for STIP and GEP for the years ending June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

| | STIP | | GEP | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net assets, beginning of year | \$ 9,393,622 | \$ 8,371,634 | \$ 6,397,763 | \$ 6,753,357 |
| Investment income | 286,597 | 415,226 | 148,365 | 167,688 |
| Net appreciation (depreciation) in fair value of investments | 89,756 | 44,102 | (1,303,982) | (396,382) |
| Transfer to TRIP | (1,518,000) | | | |
| Participant contributions (withdrawals), net | (232,216) | 562,660 | (165,445) | (126,900) |
| Net assets, end of year | \$8,019,759 | \$9,393,622 | \$5,076,701 | \$6,397,763 |

3. SECURITIES LENDING

The University and UCRS jointly participate in a securities lending program as a means to augment income. Campus foundations' cash and cash equivalents and 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 assets. At June 30, 2009 and 2008, the securities in these pools had a weighted average maturity of 37 and 27 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 assets. Securities collateral received from the borrower is held in investment pools by the University's custodial bank.

At June 30, 2009, the University had little 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, 2009 and 2008 is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|--|--------------------------|--------------------|--|------------------|---|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| SECURITIES LENT | | | | | | |
| <i>For cash collateral:</i> | | | | | | |
| Equity securities: | | | | | | |
| Domestic | \$ 314,190 | \$ 219,975 | \$ 27,706 | \$ 77,990 | \$ 2,966,044 | \$ 2,575,061 |
| Foreign | 230,755 | 165,410 | | | 1,660,423 | 1,254,829 |
| Fixed income securities: | | | | | | |
| U.S. government guaranteed | 1,166,346 | 1,268,540 | | | 4,306,053 | 4,866,707 |
| Other U.S. dollar denominated | 624,378 | 1,700,774 | | | 1,115,132 | 3,194,168 |
| Foreign currency denominated | 153 | 1,300 | | | | 7,743 |
| Campus foundations' share | (160,495) | (199,248) | 160,495 | 199,248 | | |
| Lent for cash collateral | 2,175,327 | 3,156,751 | 188,201 | 277,238 | 10,047,652 | 11,898,508 |
| <i>For securities collateral:</i> | | | | | | |
| Equity securities: | | | | | | |
| Domestic | 13,080 | 4,784 | | | 104,095 | 114,551 |
| Foreign | 23,569 | 46,604 | | | 117,161 | 219,714 |
| Fixed income securities: | | | | | | |
| U.S. government guaranteed | 131,795 | 126,604 | | | 44,880 | 617,248 |
| Other U.S. dollar denominated | 323,611 | 98 | | | 896,946 | 11,230 |
| Foreign currency denominated | 5,620 | 1,040 | | | 15,662 | 6,191 |
| Lent for securities collateral | 497,675 | 179,130 | | | 1,178,744 | 968,934 |
| Total securities lent | \$2,673,002 | \$3,335,881 | \$188,201 | \$277,238 | \$11,226,396 | \$12,867,442 |
| COLLATERAL RECEIVED | | | | | | |
| Cash | \$ 2,359,757 | \$ 3,432,762 | \$ 28,569 | \$ 80,429 | \$ 10,387,181 | \$ 12,223,854 |
| Campus foundations' share | (160,495) | (199,248) | 160,495 | 199,248 | | |
| Total cash collateral received | 2,199,262 | 3,233,514 | 189,064 | 279,677 | 10,387,181 | 12,223,854 |
| Securities | 510,803 | 186,032 | | | 1,209,837 | 1,006,268 |
| Total collateral received | \$2,710,065 | \$3,419,546 | \$189,064 | \$279,677 | \$11,597,018 | \$13,230,122 |
| INVESTMENT OF CASH COLLATERAL | | | | | | |
| Fixed income securities: | | | | | | |
| Other U.S. dollar denominated: | | | | | | |
| Corporate bonds | \$ 250,014 | \$ 706,651 | \$ 7,509 | \$ 9,524 | \$ 1,100,515 | \$ 2,633,406 |
| Commercial paper | 106,004 | 2,267 | | | 466,609 | 22,670 |
| Repurchase agreements | 275,986 | 637,381 | 11,252 | 22,064 | 1,214,836 | 2,369,817 |
| Corporate–asset-backed securities | 541,202 | 994,968 | 2,000 | 2,250 | 2,382,262 | 3,472,835 |
| Certificates of deposit/time deposits | 1,164,750 | 845,886 | 2,926 | 15,017 | 5,126,998 | 2,879,335 |
| Supranational/foreign | 64,877 | 221,218 | | | 285,576 | 712,008 |
| Other | | | 2,000 | 7,018 | | |
| Commingled funds–money market funds | 96,160 | 7,132 | 2,861 | 24,556 | 423,277 | 67,942 |
| Other assets (liabilities), net ¹ | (147,618) | 1,468 | | | (649,788) | 4,059 |
| Campus foundations' share | (160,495) | (199,248) | 160,495 | 199,248 | | |
| Investment of cash collateral | 2,190,880 | 3,217,723 | 189,043 | 279,677 | \$10,350,285 | \$12,162,072 |
| Less: Current portion | (1,844,661) | (2,096,106) | (163,680) | (210,224) | | |
| Noncurrent portion | \$ 346,219 | \$1,121,617 | \$ 25,363 | \$ 69,453 | | |

¹ Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.

The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The University receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|--|--------------------------|------------------|--|-----------------|---|------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Securities lending income | \$ 45,870 | \$ 175,262 | \$ 4,345 | \$ 13,626 | \$ 217,438 | \$ 685,910 |
| Securities lending fees and rebates | (22,027) | (150,026) | (2,344) | (11,793) | (105,682) | (588,787) |
| Securities lending investment income, net | \$23,843 | \$ 25,236 | \$2,001 | \$ 1,833 | \$111,756 | \$ 97,123 |

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 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.

The credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|--|--------------------------|--------------|--|----------|---|--------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Fixed or variable income securities: | | | | | | |
| Other U.S. dollar denominated: | | | | | | |
| AAA | \$ 512,924 | \$ 1,169,199 | \$ 2,000 | \$ 7,272 | \$ 2,257,794 | \$ 4,038,265 |
| AA+ | 2,407 | 58,995 | | | 10,597 | 189,881 |
| AA | 102,567 | 163,931 | 2,000 | 7,502 | 451,481 | 714,324 |
| AA- | 77,744 | 337,617 | | | 342,212 | 1,195,790 |
| A+ | 129,329 | 166,445 | | | 569,280 | 624,847 |
| A | 32,634 | 35,195 | 10,435 | 19,034 | 143,649 | 141,149 |
| A- | | 1,746 | | | | 17,458 |
| BBB | 6,955 | 5,564 | | | 30,613 | 55,073 |
| BB- | 10,032 | | | | 44,159 | |
| A-1 / P-1 / F-1 | 1,528,241 | 1,456,841 | | | 6,727,011 | 4,984,924 |
| Not rated | | 12,838 | 11,252 | 22,065 | | 128,360 |
| Commingled funds: | | | | | | |
| Money market funds: Not rated | 96,160 | 7,132 | 2,861 | 24,556 | 423,277 | 67,942 |
| Other assets (liabilities), net ¹ : Not rated | (147,618) | 1,468 | | | (649,788) | 4,059 |
| Campus foundations' share | (160,495) | (199,248) | 160,495 | 199,248 | | |

¹ 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 of California and the 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. 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 at June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|--------------------------------------|--------------------------|-----------|--|----------|---|-------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| JP Morgan Chase | \$170,835 | \$310,406 | \$ 2,000 | | \$751,980 | \$1,008,099 |
| BNP Paribas | 138,862 | | | | 611,242 | |
| Bank of America | 131,478 | | 2,000 | | 578,741 | |
| Lehman Brothers | | 208,779 | | | | 681,221 |
| Deutsche Bank Securities | | | 11,252 | | | |
| Sun Trust Bank | | | 2,926 | | | |
| General Electric Capital Corporation | | | 3,009 | | | |
| Bank of New York/Mellon | | | 2,861 | | | |
| Goldman Sachs | | | 2,500 | \$10,019 | | |
| Rabo Bank Nederland NV | | | 2,000 | | | |
| Daiwa Securities America, Inc. | | | | 22,065 | | |
| Bank of New York | | | | 14,537 | | |
| Campus foundations' share | (32,681) | (30,475) | 32,681 | 30,475 | | |

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, 2009 and 2008 is as follows:

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|---|--------------------------|------|--|------|---|------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Fixed or variable income securities: | | | | | | |
| Other U.S. dollar denominated: | | | | | | |
| Corporate bonds | 43 | 45 | 33 | 43 | 43 | 48 |
| Commercial paper | 70 | 35 | | | 70 | 35 |
| Repurchase agreements | 1 | 1 | 1 | 1 | 1 | 1 |
| Corporate–asset-backed securities | 23 | 28 | 15 | 15 | 23 | 39 |
| Certificates of deposit/time deposits | 50 | 37 | 29 | 15 | 50 | 38 |
| Supranational/foreign | 34 | 83 | | | 34 | 83 |
| Other | | | 15 | 23 | | |
| Commingled funds: | | | | | | |
| Money market funds | 1 | 1 | 1 | 1 | 1 | 1 |

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, 2009 and 2008, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM | |
|-------------------------------|--------------------------|--------------------|--|------------------|---|--------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Other asset-backed securities | \$ 541,202 | \$ 994,968 | \$ 2,000 | \$ 2,250 | \$ 2,382,262 | \$ 3,472,835 |
| Variable-rate investments | 314,892 | 915,801 | | | 1,386,091 | 3,230,422 |
| Campus foundations' share | (63,418) | (112,157) | 63,418 | 112,157 | | |
| Total | \$792,676 | \$1,798,612 | \$65,418 | \$114,407 | \$3,768,353 | \$6,703,257 |

At June 30, 2009 and 2008, the weighted average maturity expressed in days for asset-backed securities was 23 days and 58 days, respectively, and for variable-rate investments was 41 days and 22 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. 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 retains on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects. The combined fair value of all of the investments and deposits held by trustees was \$937.2 million and \$790.4 million at June 30, 2009 and 2008, respectively.

Self-Insurance Programs

Investments held by trustees for self-insurance programs include separate trusts for the workers' compensation and professional medical and hospital liability programs. Securities are held by the trustee in the name of the University. The trust agreements permit the trustee to invest in U.S. and state government or agency obligations, corporate debt securities, commercial paper or certificates of deposit.

The composition of cash and investments and effective duration associated with fixed income securities for self-insurance programs at June 30, 2009 and 2008, respectively, is as follows:

(in thousands of dollars)

| | INVESTMENTS AT FAIR VALUE | | EFFECTIVE DURATION | |
|--|---------------------------|------------------|--------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Cash | \$ (7,131) | \$ 4,001 | 0.0 | 0.0 |
| U.S. government guaranteed: | | | | |
| U.S. government-backed-asset-backed securities | 25,218 | 29,206 | 3.2 | 3.5 |
| Other U.S. dollar denominated: | | | | |
| Corporate-asset-backed securities | 120,509 | 164,650 | 2.1 | 1.6 |
| U.S. agencies-asset-backed securities | 437,906 | 350,839 | 2.6 | 3.8 |
| Commingled funds-money market funds | 12,002 | 20,266 | 0.0 | 0.0 |
| Total | \$588,504 | \$568,962 | | |

Asset-backed securities, generally collateralized mortgage obligations, with underlying government agency collateral or credit ratings ranging from A to AAA, are utilized within the investment constraints in order to enhance investment returns over other high-grade fixed income asset classes.

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 \$62.6 million and \$84.7 million at June 30, 2009 and 2008, respectively.

The state financing appropriations to the University are deposited in commingled U.S. bond funds managed by the State of California Treasurer's Office, as trustee, and used to satisfy the annual lease requirements under lease-purchase agreements with the state. The fair value of these deposits was \$58.3 million and \$77.9 million at June 30, 2009 and 2008, respectively.

In addition, other securities held by trustees are held in the name of the University. 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. The fair value of these investments was \$4.3 million and \$6.8 million at June 30, 2009 and 2008, respectively.

Capital Projects

Investments held by trustees to be used for capital projects totaled \$284.1 million and \$135.5 million at June 30, 2009 and 2008, respectively.

Proceeds from the sale of the state's lease revenue bonds to be used for financing certain of the University's capital projects are 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 \$119.8 million and \$120.2 million at June 30, 2009 and 2008, respectively.

In addition, proceeds from the sale of bonds and certain University funds are held by trustees to be used for financing other capital projects. The fair value of these investments was \$164.3 million and \$15.3 million at June 30, 2009 and 2008, respectively. Substantially all of these investments are of a highly liquid, short term nature.

University deposits into the trusts, or receipts from the trusts, are classified as an operating activity in the University's statement of cash flows if related to the self-insurance programs, or a capital and related financing activity if related to long-term debt requirements or a capital project. Deposits directly into trusts by third parties, investment transactions initiated by trustees in conjunction with the management of trust assets and payments from trusts directly to third parties are not included in the University's statement of cash flows.

5. ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible amounts at June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS |
|-------------------------------------|------------------------------|--------------------|-------------------|--------------------|---|
| | STATE AND FEDERAL GOVERNMENT | MEDICAL CENTERS | INVESTMENT INCOME | OTHER | TOTAL |
| <i>At June 30, 2009</i> | | | | | |
| Accounts receivable | \$ 582,211 | \$ 1,201,424 | \$ 93,915 | \$ 1,061,832 | \$ 2,939,382 |
| Allowance for uncollectible amounts | (2,648) | (200,412) | | (53,847) | (256,907) |
| Accounts receivable, net | \$579,563 | \$1,001,012 | \$93,915 | \$1,007,985 | \$2,682,475 |
| | | | | | \$ 6,506 |
| <i>At June 30, 2008</i> | | | | | |
| Accounts receivable | \$ 621,849 | \$ 1,107,696 | \$ 87,707 | \$ 818,488 | \$ 2,635,740 |
| Allowance for uncollectible amounts | (1,982) | (161,342) | | (45,909) | (209,233) |
| Accounts receivable, net | \$619,867 | \$ 946,354 | \$ 87,707 | \$ 772,579 | \$2,426,507 |
| | | | | | \$12,343 |

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

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

Adjustments to the allowance for doubtful accounts have either increased or (decreased) the following revenues for the years ended June 30, 2009 and 2008:

(in thousands of dollars)

| | 2009 | 2008 |
|--------------------------|------------|-----------|
| Student tuition and fees | \$ (2,548) | \$ (370) |
| Grants and contracts: | | |
| Federal | (772) | (366) |
| State | (583) | (789) |
| Private | (3,341) | (135) |
| Local | (76) | (48) |
| Medical centers | (164,010) | (118,939) |
| Educational activities | (8,108) | (13,830) |
| Auxiliary enterprises | (771) | 97 |
| Other operating revenues | 191 | 108 |

Retirement System Contribution

The state of California agreed to make contributions related to certain prior years to the University for UCRP in annual installments over 30 years. During the years ended June 30, 2009 and 2008, under the terms of these agreements, the state of California contributed \$11.3 million each year, including interest at rates ranging from 8.0 percent to 8.5 percent. At June 30, 2009 and 2008, the remaining amounts owed to UCRP by the state were \$57.3 million and \$63.3 million, respectively. These amounts are recorded in the University's statement of net assets as a receivable from the state of California and as a liability owed to UCRP.

6. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2009 and 2008 is summarized as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | |
|---|--------------------------|------------------|--|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Total pledges receivable outstanding | \$102,649 | \$ 116,287 | \$ 534,752 | \$ 516,058 |
| Less: Unamortized discount to present value | (4,537) | (5,335) | (96,006) | (75,719) |
| Allowance for uncollectible pledges | (5,084) | (4,794) | (36,975) | (19,594) |
| Total pledges receivable, net | 93,028 | 106,158 | 401,771 | 420,745 |
| Less: Current portion of pledges receivable | (48,213) | (55,759) | (131,352) | (88,942) |
| Noncurrent portion of pledges receivable | \$ 44,815 | \$ 50,399 | \$270,419 | \$331,803 |

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2009 and thereafter are as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS |
|---|--------------------------|--|
| <i>Year Ending June 30</i> | | |
| 2010 | \$ 51,550 | \$ 149,179 |
| 2011 | 21,899 | 94,884 |
| 2012 | 14,035 | 50,455 |
| 2013 | 6,124 | 33,532 |
| 2014 | 2,591 | 19,719 |
| 2015-2019 | 6,450 | 23,247 |
| Beyond 2019 | | 163,736 |
| Total payments on pledges receivable | \$102,649 | \$534,752 |

Adjustments to the allowance for doubtful accounts associated with pledges have either increased or (decreased) the following revenues for the years ended June 30, 2009 and 2008:

(in thousands of dollars)

| | 2009 | 2008 |
|--------------------------|-----------|-------|
| Private gifts | \$(4,984) | \$149 |
| Capital gifts and grants | (9) | 34 |

7. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2009 and 2008, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | |
|--|--------------------------|------------------|-----------------|------------------|---|--------------|--------------|
| | CURRENT | NONCURRENT | | | CURRENT | NONCURRENT | TOTAL |
| | | NOTES | MORTGAGES | TOTAL | | | |
| <i>At June 30, 2009</i> | | | | | | | |
| Notes and mortgages receivable | \$ 34,113 | \$ 284,190 | \$ 28,068 | \$ 312,258 | \$ 16 | \$ 486 | \$ 502 |
| Allowance for uncollectible amounts | (4,515) | (13,599) | (143) | (13,742) | | | |
| Notes and mortgages receivable, net | \$29,598 | \$270,591 | \$27,925 | \$298,516 | \$16 | \$486 | \$502 |
| <i>At June 30, 2008</i> | | | | | | | |
| Notes and mortgages receivable | \$ 36,948 | \$ 275,725 | \$ 22,971 | \$ 298,696 | \$ 32 | \$ 502 | \$ 534 |
| Allowance for uncollectible amounts | (4,742) | (11,447) | (142) | (11,589) | | | |
| Notes and mortgages receivable, net | \$32,206 | \$264,278 | \$22,829 | \$287,107 | \$32 | \$502 | \$534 |

8. DOE NATIONAL LABORATORY CONTRACTS

The University records a receivable from the DOE to the extent there is a liability on the University's statement of net assets related to a DOE laboratory. These receivables are attributable to operating liabilities associated with LBNL, such as third-party vendor and employee-related liabilities. In addition, the University records a receivable from the DOE for services the University may perform directly for LBNL, costs incurred in conjunction with the transition of the LANL and LLNL contracts to the successor contractor, the DOE's continuing financial obligation to the University for LANL's, LLNL's and LBNL's current and future pension costs, and the DOE's continuing financial obligation to the University for LBNL's current and future retiree health benefit costs.

Receivables from the DOE at June 30, 2009 and 2008 are as follows:

| (in thousands of dollars) | 2009 | 2008 |
|---|-----------------|-----------------|
| Vendor and employee-related operating costs | \$ 83,212 | \$ 66,374 |
| Performance of services and transition costs | 12,246 | 16,178 |
| Current portion of the DOE receivable | \$95,458 | \$82,552 |
| Retiree health costs | \$ 66,438 | \$ 31,494 |
| Noncurrent portion of the DOE receivable | \$66,438 | \$31,494 |

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 to 50 percent. For the years ended June 30, 2009 and June 30, 2008, the University recorded \$15.6 million and \$15.3 million, respectively, as its equity in the current earnings of LANS and received \$14.8 million in cash distributions in both years.

Lawrence Livermore National Security, LLC (LLNS)

As of October 1, 2007, LLNS became the operator and manager of 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. For the year ended June 30, 2009 and the nine-month period ended June 30, 2008, the University recorded \$12.0 million and \$10.0 million, respectively, as its equity in the current earnings of LLNS and received \$13.8 million and \$5.5 million in cash distributions, respectively.

9. CAPITAL ASSETS

The University's capital asset activity for the years ended June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

| | 2007 | ADDITIONS | DISPOSALS | 2008 | ADDITIONS | DISPOSALS | 2009 |
|--|---------------------|-------------------------------|---------------------|---------------------|-------------------------------|---------------------|---------------------|
| ORIGINAL COST | | | | | | | |
| Land | \$ 615,015 | \$ 51,681 | \$ (2,390) | \$ 664,306 | \$ 31,335 | \$ (1) | \$ 695,640 |
| Infrastructure | 426,179 | 28,284 | (336) | 454,127 | 33,876 | (2,727) | 485,276 |
| Buildings and improvements | 17,125,032 | 2,719,711 | (33,876) | 19,810,867 | 2,287,629 | (13,189) | 22,085,307 |
| Equipment | 4,503,537 | 490,571 | (296,124) | 4,697,984 | 519,326 | (286,373) | 4,930,937 |
| Libraries and collections | 3,045,510 | 135,222 | | 3,180,732 | 138,995 | (12,028) | 3,307,699 |
| Special collections | 266,153 | 18,722 | | 284,875 | 24,015 | (1,753) | 307,137 |
| Construction in progress | 3,836,078 | (835,527) | | 3,000,551 | (125,668) | | 2,874,883 |
| Capital assets, at original cost | \$29,817,504 | \$2,608,664 | \$ (332,726) | \$32,093,442 | \$2,909,508 | \$ (316,071) | \$34,686,879 |
| | | | | | | | |
| | 2007 | DEPRECIATION AND AMORTIZATION | DISPOSALS | 2008 | DEPRECIATION AND AMORTIZATION | DISPOSALS | 2009 |
| ACCUMULATED DEPRECIATION AND AMORTIZATION | | | | | | | |
| Infrastructure | \$ 184,810 | \$ 15,895 | \$ (397) | \$ 200,308 | \$ 16,058 | \$ (2,130) | \$ 214,236 |
| Buildings and improvements | 6,417,727 | 581,528 | (19,301) | 6,979,954 | 669,466 | (7,371) | 7,642,049 |
| Equipment | 2,972,005 | 404,223 | (285,866) | 3,090,362 | 402,562 | (267,272) | 3,225,652 |
| Libraries and collections | 2,137,630 | 91,974 | | 2,229,604 | 109,318 | (10,895) | 2,328,027 |
| Accumulated depreciation and amortization | \$11,712,172 | \$1,093,620 | \$ (305,564) | \$12,500,228 | \$1,197,404 | \$ (287,668) | \$13,409,964 |
| Capital assets, net | \$18,105,332 | | | \$19,593,214 | | | \$21,276,915 |

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

The University's self-insurance and other liabilities, primarily employee leave and other compensated absences with similar characteristics, contributions owed to UCRP by the state of California and accrued interest, at June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | | |
|--|--------------------------|-------------------|------------------|-------------------|--|-------------------|-----------------|-------------------|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | CURRENT | NONCURRENT | CURRENT | NONCURRENT | CURRENT | NONCURRENT | CURRENT | NONCURRENT |
| Self-insurance programs | \$ 163,090 | <u>\$ 434,924</u> | \$ 147,394 | <u>\$ 449,347</u> | | | | |
| Obligations under life income agreements | 876 | <u>\$ 28,359</u> | 916 | <u>\$ 31,074</u> | \$ 18,488 | <u>\$ 142,740</u> | \$ 23,688 | <u>\$ 156,911</u> |
| Other liabilities: | | | | | | | | |
| Compensated absences | 416,631 | \$ 219,820 | 380,543 | \$ 208,763 | | | | |
| UCRP | | 50,801 | | 57,303 | | | | |
| Accrued interest | 62,055 | | 60,637 | | | | | |
| Other | 197,789 | 137,197 | 249,799 | 140,530 | 709 | \$ 13,532 | 851 | \$ 14,134 |
| Total | \$840,441 | \$407,818 | \$839,289 | \$406,596 | \$19,197 | \$ 13,532 | \$24,539 | \$ 14,134 |

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

Self-Insurance Programs

The University is self-insured 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.

Changes in self-insurance liabilities for years ended June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

| | MEDICAL MALPRACTICE | WORKERS' COMPENSATION | EMPLOYEE HEALTH CARE | GENERAL LIABILITY | TOTAL |
|--|------------------------|--------------------------|-------------------------|----------------------|------------------|
| <i>Year Ended June 30, 2009</i> | | | | | |
| Liabilities at June 30, 2008 | \$ 188,660 | \$ 322,308 | \$ 6,773 | \$ 79,000 | \$ 596,741 |
| Claims incurred and changes in estimates | 39,675 | 56,735 | 49,898 | 43,344 | 189,652 |
| Claim payments | (41,799) | (70,724) | (46,881) | (28,975) | (188,379) |
| Liabilities at June 30, 2009 | \$186,536 | \$308,319 | \$ 9,790 | \$93,369 | \$598,014 |
| Discount rate | 5.5% | 5.0% | Undiscounted | 4.5% | |
| <i>Year Ended June 30, 2008</i> | | | | | |
| Liabilities at June 30, 2007 | \$ 179,589 | \$ 316,222 | \$ 4,158 | \$ 59,612 | \$ 559,581 |
| Claims incurred and changes in estimates | 42,790 | 77,699 | 39,042 | 44,751 | 204,282 |
| Claim payments | (33,719) | (71,613) | (36,427) | (25,363) | (167,122) |
| Liabilities at June 30, 2008 | \$188,660 | \$322,308 | \$ 6,773 | \$79,000 | \$596,741 |
| Discount rate | 5.5% | 5.0% | Undiscounted | 5.0% | |

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 their fair value. The discounted present value of any income beneficiary interest is reported as a liability in the statement of net assets. 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 assets. Resources that are expendable upon maturity are classified as restricted, expendable net assets; all others are classified as restricted, nonexpendable net assets.

Changes in current and noncurrent obligations under life income agreements for the years ended June 30, 2009 and 2008 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, 2009</i> | | | | |
| Current portion at June 30, 2008 | \$ 403 | \$ 513 | \$ 7,490 | \$ 16,198 |
| Reclassification from noncurrent | 1,761 | 1,636 | 6,480 | 11,382 |
| Payments to beneficiaries | (1,719) | (1,718) | (7,346) | (15,716) |
| Current portion at June 30, 2009 | \$ 445 | \$ 431 | \$ 6,624 | \$ 11,864 |
| Noncurrent portion at June 30, 2008 | \$ 10,543 | \$ 20,531 | \$ 48,679 | \$ 108,232 |
| New obligations to beneficiaries and change in liability, net | 3,320 | (2,638) | 11,777 | (8,086) |
| Reclassification to current | (1,761) | (1,636) | (6,480) | (11,382) |
| Noncurrent portion at June 30, 2009 | \$12,102 | \$16,257 | \$53,976 | \$ 88,764 |
| <i>Year Ended June 30, 2008</i> | | | | |
| Current portion at June 30, 2007 | \$ 372 | \$ 593 | \$ 7,476 | \$ 16,567 |
| Reclassification from noncurrent | 1,455 | 2,117 | 7,440 | 16,042 |
| Payments to beneficiaries | (1,424) | (2,197) | (7,426) | (16,411) |
| Current portion at June 30, 2008 | \$ 403 | \$ 513 | \$ 7,490 | \$ 16,198 |
| Noncurrent portion at June 30, 2007 | \$ 10,004 | \$ 21,958 | \$ 43,074 | \$ 114,033 |
| New obligations to beneficiaries and change in liability, net | 1,994 | 690 | 13,045 | 10,241 |
| Reclassification to current | (1,455) | (2,117) | (7,440) | (16,042) |
| Noncurrent portion at June 30, 2008 | \$10,543 | \$20,531 | \$48,679 | \$108,232 |

Other Noncurrent Liabilities

Changes in other noncurrent liabilities for the years ended June 30, 2009 and 2008 are as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | | | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS |
|-------------------------------------|--------------------------|-----------------|--------------------------|-----------------|--|
| | COMPENSATED ABSENCES | UCRP | POLLUTION REMEDIATION | OTHER | TOTAL |
| <i>Year Ended June 30, 2009</i> | | | | | |
| Liabilities at June 30, 2008 | \$ 208,763 | \$ 57,303 | \$ 42,611 | \$ 97,919 | \$ 406,596 |
| New obligations | 398,547 | | 2,055 | 4,049 | 404,651 |
| Reclassification to current | (387,490) | (6,502) | (3,468) | (5,969) | (403,429) |
| Liabilities at June 30, 2009 | \$219,820 | \$50,801 | \$41,198 | \$95,999 | \$407,818 |
| | | | | | \$13,532 |
| <i>Year Ended June 30, 2008</i> | | | | | |
| Liabilities at June 30, 2007 | \$ 202,606 | \$ 63,316 | \$ 41,382 | \$ 85,861 | \$ 393,165 |
| New obligations | 354,202 | | 2,664 | 23,675 | 380,541 |
| Reclassification to current | (348,045) | (6,013) | (1,435) | (11,617) | (367,110) |
| Liabilities at June 30, 2008 | \$208,763 | \$57,303 | \$42,611 | \$97,919 | \$406,596 |
| | | | | | \$14,134 |

Payments are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises, endowment income or other revenue sources that support employees' salaries.

Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated the University is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost or 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, 2009 reducing the pollution remediation liability.

11. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment through the issuance of debt obligations or indirectly through structures that involve a separate limited liability corporation (LLC). Commercial paper and bank loans provide for interim financing. Long-term financing includes revenue bonds, certificates of participation, capital lease obligations and other borrowings.

The University's outstanding debt at June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

| | WEIGHTED AVERAGE INTEREST RATE | INTEREST RATE RANGE | MATURITY YEARS | 2009 | 2008 |
|--|-----------------------------------|------------------------|----------------|---------------------|---------------------|
| INTERIM FINANCING: | | | | | |
| Commercial paper | | 0.2–0.5% | 2009 | \$ 665,525 | \$ 550,000 |
| LONG-TERM FINANCING: | | | | | |
| University of California General Revenue Bonds | 4.9% | 1.6–5.8% | 2010–2040 | 4,528,790 | 3,839,995 |
| University of California Limited Project Revenue Bonds | 4.9% | 3.0–5.0% | 2010–2041 | 1,380,840 | 1,397,200 |
| University of California Multiple Purpose Projects Revenue Bonds | 4.9% | 3.0–5.8% | 2009–2027 | 187,505 | 263,455 |
| University of California Medical Center Pooled Revenue Bonds | 4.6% | 2.5–5.3% | 2010–2047 | 1,039,280 | 1,054,910 |
| University of California Medical Center Revenue Bonds | 5.2% | 3.0–5.5% | 2009–2039 | 137,090 | 142,905 |
| University of California Research Facilities Revenue Bonds | | | | | 17,775 |
| Adjusted by: Unamortized deferred financing costs | | | | (77,071) | (89,396) |
| Unamortized bond premium | | | | 190,113 | 181,590 |
| University of California revenue bonds | 4.9% | | | 7,386,547 | 6,808,434 |
| Certificates of participation | 4.0% | 4.0% | 2010 | 975 | 4,445 |
| Capital lease obligations | | 0.0–10.0% | 2009–2034 | 2,374,908 | 2,242,549 |
| Other University borrowings | | Various | 2010–2024 | 230,973 | 309,704 |
| Student housing LLC revenue bonds, net | 5.6% | 4.0–6.0% | 2010–2040 | 330,542 | 109,850 |
| Total outstanding debt | | | | 10,989,470 | 10,024,982 |
| Less: Commercial paper | | | | (665,525) | (550,000) |
| Current portion of outstanding debt | | | | (466,905) | (546,461) |
| Noncurrent portion of outstanding debt | | | | \$ 9,857,040 | \$ 8,928,521 |

Interest expense associated with financing projects during construction, along with any investment income earned on bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2009 and 2008 was \$445.5 million and \$425.7 million, respectively. Interest expense totaling \$89.6 million and \$25.3 million was capitalized during the years ended June 30, 2009 and 2008, respectively. The remaining \$355.9 million in 2009 and \$400.4 million in 2008 are reported as interest expense in the statement of revenues, expenses and changes in net assets. Investment income totaling \$2.8 million and \$10.0 million was capitalized during the years ended June 30, 2009 and 2008, respectively.

Outstanding Debt Activity

The activity with respect to the University's current and noncurrent debt, including the revenue bonds associated with the student housing LLC, for the years ended June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

| | UNIVERSITY REVENUE BONDS | CERTIFICATES OF PARTICIPATION | CAPITAL LEASE OBLIGATIONS | OTHER UNIVERSITY BORROWINGS | STUDENT HOUSING LLC REVENUE BONDS | TOTAL |
|---|--------------------------|-------------------------------|---------------------------|-----------------------------|-----------------------------------|--------------------|
| <i>Year Ended June 30, 2009</i> | | | | | | |
| Current portion at June 30, 2008 | \$ 181,610 | \$ 2,175 | \$ 143,758 | \$ 218,255 | \$ 663 | \$ 546,461 |
| Reclassification from noncurrent | 258,674 | 2,270 | 146,767 | 90,080 | 907 | 498,698 |
| Refinancing or prepayment of outstanding debt | (60,885) | (1,295) | | (147,970) | | (210,150) |
| Scheduled principal payments | (176,070) | (2,175) | (149,984) | (33,765) | (846) | (362,840) |
| Amortization of bond premium | (13,393) | | | | (80) | (13,473) |
| Amortization of deferred financing costs | 7,946 | | | | 263 | 8,209 |
| Current portion at June 30, 2009 | \$ 197,882 | \$ 975 | \$ 140,541 | \$126,600 | \$ 907 | \$ 466,905 |
| Noncurrent portion at June 30, 2008 | \$ 6,626,824 | \$ 2,270 | \$ 2,098,791 | \$ 91,449 | \$ 109,187 | \$ 8,928,521 |
| New obligations | 794,220 | | 282,343 | 103,004 | 220,915 | 1,400,482 |
| Bond premium | 21,916 | | | | 440 | 22,356 |
| Deferred financing costs | 4,379 | | | | | 4,379 |
| Reclassification to current | (258,674) | (2,270) | (146,767) | (90,080) | (907) | (498,698) |
| Noncurrent portion at June 30, 2009 | \$7,188,665 | \$ - | \$2,234,367 | \$104,373 | \$329,635 | \$9,857,040 |
| <i>Year Ended June 30, 2008</i> | | | | | | |
| Current portion at June 30, 2007 | \$ 160,763 | \$ 4,020 | \$ 125,321 | \$ 339,211 | \$ 398 | \$ 629,713 |
| Reclassification from noncurrent | 690,832 | 2,175 | 146,571 | 310,455 | 662 | 1,150,695 |
| Refinancing or prepayment of outstanding debt | (512,465) | | | (357,529) | | (869,994) |
| Scheduled principal payments | (152,780) | (4,020) | (128,134) | (73,882) | (580) | (359,396) |
| Amortization of bond premium | (11,690) | | | | (80) | (11,770) |
| Amortization of deferred financing costs | 6,950 | | | | 263 | 7,213 |
| Current portion at June 30, 2008 | \$ 181,610 | \$ 2,175 | \$ 143,758 | \$218,255 | \$ 663 | \$ 546,461 |
| Noncurrent portion at June 30, 2007 | \$ 6,113,399 | \$ 4,445 | \$ 1,884,177 | \$ 72,147 | \$ 109,849 | \$ 8,184,017 |
| New obligations | 1,184,225 | | 361,185 | 329,757 | | 1,875,167 |
| Bond premium | 30,631 | | | | | 30,631 |
| Deferred financing costs | (10,599) | | | | | (10,599) |
| Reclassification to current | (690,832) | (2,175) | (146,571) | (310,455) | (662) | (1,150,695) |
| Noncurrent portion at June 30, 2008 | \$6,626,824 | \$2,270 | \$2,098,791 | \$ 91,449 | \$109,187 | \$8,928,521 |

Commercial Paper

The University has available a commercial paper program with tax-exempt and taxable components. The program's liquidity is 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, 2009 and 2008 is as follows:

| | 2009 | | 2008 | |
|--------------------------|----------------|------------------|----------------|------------------|
| | INTEREST RATES | OUTSTANDING | INTEREST RATES | OUTSTANDING |
| Tax-exempt | 0.2–0.5% | \$488,995 | 1.2–1.9% | \$430,000 |
| Taxable | 0.3–0.4% | 176,530 | 2.2–2.3% | 120,000 |
| Total outstanding | | \$665,525 | | \$550,000 |

In July 2008, The Regents authorized an increase in the University's Commercial Paper Program from \$550.0 million to \$2.0 billion in order to reduce the number of bank line commitments, provide greater access to tax-exempt financing and preserve flexibility for future interim financing needs. Commercial paper is issued in two series. The first series of up to \$1.5 billion, consisting of both tax-exempt and taxable components, may be issued for interim financing for capital projects, interim financing of equipment, financing of working capital for the medical centers and other working capital needs. The second series of up to \$500 million of taxable commercial paper may be issued for standby or interim financing for gift financed projects.

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 a line of credit from an external bank.

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 interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue bond indentures require the University to use the facilities in a way which will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of the University consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond indenture requires the University to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General Revenues for the years ended June 30, 2009 and 2008 were \$7.05 billion and \$6.72 billion, respectively.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The indenture requires the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. Pledged revenues for the years ended June 30, 2009 and 2008 were \$349.6 million and \$337.2 million, respectively.

Multiple Purpose Projects Revenue Bonds are collateralized by a pledge of the net revenues generated by the enterprises. The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues after expenses and requirements for senior lien indentures equal to 1.25 times debt service and maintain certain other financial covenants. Pledged revenues for the years ended June 30, 2009 and 2008 were \$471.8 million and \$491.9 million, respectively.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical center facilities and are collateralized by a joint and several pledge 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 center gross revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. Gross revenues of the medical centers for the years ended June 30, 2009 and 2008 were \$5.57 billion and \$4.98 billion, respectively.

Medical Center Revenue Bonds have also financed certain facilities of the University's five medical centers and are collateralized by a pledge of the specific gross revenues associated with each medical center. The Medical Center Revenue Bond indentures require each medical center to achieve debt service coverage of 1.1 times to 1.2 times (depending on the indenture), set limitations on encumbrances, indebtedness, disposition of assets and transfer services, as well as maintain certain other financial covenants.

Research Facilities Revenue Bonds are collateralized by a pledge of the University's share of facilities and administrative recoveries received on federal research grants and contracts. The Research Facilities Revenue Bond indentures require the University to achieve debt service coverage of 1.25 times and maintain certain other financial covenants.

Generally, in accordance with the terms of the indentures, the pledge of General Revenues under General Revenue Bonds are subordinate to the pledge of the University's share of facilities and administrative cost recoveries received on federal research grants and contracts under Research Facilities Revenue Bonds. The pledge of revenues under Limited Project Revenue Bonds is subordinate to the pledge of revenues associated with General Revenue Bonds, but senior to pledges under Multiple Purpose Projects Revenue Bonds, commercial paper agreements or bank loans. The pledge of net revenues associated with projects financed with Multiple Purpose Projects Revenue Bonds is subordinate to General Revenue Bonds and Limited Project Revenue Bonds, but senior to pledges under commercial paper agreements or bank loans.

Medical Center gross revenues are not pledged for any purpose other than under the indentures for the Medical Center Pooled Revenue Bonds, interest rate swap agreements and specific Medical Center Revenue Bonds. The pledge of medical center revenues under Medical Center Pooled Revenue Bonds is subordinate to the specific Medical Center Revenue Bonds. The pledge of medical center revenues for interest rate swap agreements may be at parity with or subordinate to specific Medical Center Revenue Bonds and Medical Center Pooled Revenue Bonds.

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

2009 Activity

In March 2009, General Revenue Bonds totaling \$794.2 million were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of \$21.9 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of \$474.3 million. Proceeds were also used to refund \$45.8 million of outstanding Multiple Purpose Projects Revenue Bonds, \$15.1 million of Research Facilities Revenue Bonds and \$1.3 million of certificates of participation. The bonds mature at various dates through 2039 and have a weighted average interest rate of 5.2 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refunding resulted in deferred financing costs of \$1.6 million that will be amortized as interest expense over the remaining life of the refunded bonds. Aggregate debt service payments were decreased by \$308 thousand over the term of the bonds and the University was able to obtain an economic gain of \$2.1 million.

Subsequent Event

In August 2009, General Revenue Bonds totaling \$1.32 billion, including \$1.02 billion of taxable "Build America Bonds" and \$300.6 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of \$20.0 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of \$397.9 million. The bonds mature at various dates through 2043. The taxable bonds have a stated weighted average interest rate of 5.9 percent and a net weighted average interest rate of 3.8 percent after the expected cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the taxable bonds. The tax-exempt bonds have a weighted average interest rate of 5.1 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

2008 Activity

In July 2007, Medical Center Pooled Revenue Bonds totaling \$197.0 million, \$7.3 million with a fixed interest rate and \$189.8 million with a variable interest rate, were issued to refinance certain improvements to one of the medical centers. Proceeds were used to refund \$188.2 million of Medical Center Revenue Bonds. The bonds mature at various dates through 2047. The fixed rate bonds have a weighted average interest rate of 4.3 percent. In connection with the variable interest rate bonds, the University entered into interest rate swap agreements with a financial institution such that the variable interest it pays to the bondholders matches the variable payments it receives from the interest rate swaps resulting in a weighted average fixed interest rate of 4.7 percent paid to the swap counterparty. These swap transactions do not result in any basis or tax risk to the University. The bonds and the related swap agreements mature at various times through 2047 and the aggregate notional amount of the swaps matches the outstanding amount of the bonds throughout the entire term of the bonds. Aggregate debt service payments on the refunded bonds increased by \$152.6 million due to the extension of maturities over the next 40 years and the University was able to achieve an economic gain of \$1.5 million.

In October 2007, Limited Project Revenue Bonds totaling \$415.4 million were issued to finance and refinance certain auxiliary enterprises of the University. Proceeds, including a bond premium of \$18.0 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans totaling \$333.0 million. The bonds mature at various dates through 2041 and have a weighted average interest rate of 5.0 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In January 2008, General Revenue Bonds totaling \$248.9 million were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of \$12.7 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans of \$219.5 million. The bonds mature at various dates through 2040 and have a weighted average interest rate of 4.8 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In April 2008, Medical Center Pooled Revenue Bonds totaling \$323.0 million, plus a bond premium of \$10.6 million, were issued to refinance certain improvements to another of its medical centers. Proceeds were used to refund \$324.3 million of Medical Center Revenue Bonds and for a swap termination payment of \$6.8 million. The bonds mature at various dates through 2027 and have a 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. Additional deferred costs of financing totaling \$11.8 million will be amortized as interest expense over the term of the bonds.

Interest Rate Swap Agreements

Objectives. As a means to lower the University's borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University has entered into interest rate swap agreements in connection with certain variable-rate Medical Center Pooled Revenue Bonds. Under each of the swap agreements, the University pays the swap counterparties a fixed interest rate payment and receives a variable rate interest rate payment that effectively changes the University's variable interest rate bonds to synthetic fixed rate bonds.

Terms. The notional amount of the swaps matches the principal amounts of the associated bond issuance. The University's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled reductions in the associated bond issuance.

The terms of the outstanding swaps and their fair values at June 30, 2009 are as follows:

(in thousands of dollars)

| TYPE | NOTIONAL AMOUNT | EFFECTIVE DATE | MATURITY DATE | TERMS | FAIR VALUE | COUNTERPARTY CREDIT RATING |
|-----------------------------|------------------|----------------|---------------|--|--------------------|----------------------------|
| Pay fixed; receive variable | \$ 91,215 | 2007 | 2032 | Pay 3.5897%; receive 58% of 1-Month LIBOR* + 0.48% | \$ (8,173) | A2 / A |
| Pay fixed; receive variable | 189,775 | 2008 | 2047 | Pay 4.6873%; receive 67% of 3-Month LIBOR* + 0.73%** | (39,931) | Aa1 / A+ |
| Total | \$280,990 | | | | \$ (48,104) | |

* London Interbank Offered Rate (LIBOR)

** Weighted average spread

Fair Value. There is a risk that the fair value of a swap will become negative as a result of market conditions. Because swap rates have changed since execution of the swaps, financial institutions have estimated the fair value using quoted market prices when available or a forecast of expected discounted future net cash flows. The fair value of the interest rate swaps is the estimated amount the University would have either (paid) or received if the swap agreements were terminated on June 30, 2009.

Credit Risk. Although the University has entered into the interest rate swaps with creditworthy financial institutions, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements. The swap 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. Swaps with negative fair values are not exposed to credit risk.

There are no collateral requirements related to the swap with the \$91.2 million notional amount. Depending on the fair value related to the swap with the \$189.8 million notional amount, the University may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds \$35.0 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds \$50.0 million. At June 30, 2009, the University had not provided collateral to the counterparty, nor received collateral from the counterparty.

Basis Risk. There is a risk that the basis for the variable payment received will not match the variable payment on the bonds that 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 \$189.8 million notional amount since the variable rate the University pays to the bond holders matches the variable rate payments received from the swap counterparty.

Termination Risk. There is termination risk for losses 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 swaps may be terminated if credit quality ratings, as issued by Moody's or Standard & Poor's, fall below certain thresholds. For the swap with the \$91.2 notional amount, the termination threshold is reached when credit quality ratings for either the underlying Medical Center Pooled Revenue Bonds or the swap counterparty fall below either Baa2 /BBB. For the swap with the \$189.8 notional amount, the termination threshold is reached when credit quality ratings for the underlying Medical Center Pooled Revenue Bonds fall below Baa3/BBB, or the swap counterparty's ratings fall below Baa1/BBB+. At termination, the University may also owe a termination payment if there is a realized loss based on the fair value of the swap.

The University's counterparty in the interest rate swap agreement with a notional amount of \$189.8 million was Lehman Brothers Special Financing Inc. on June 30, 2008. The guarantor was Lehman Brothers Holdings Inc. In September 2008, Lehman Brothers Holdings Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. In October 2008, Lehman Brothers Special Financing Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, in October 2008, the University terminated its existing swap agreement and substituted a new interest rate swap agreement with a new counterparty with identical economic terms, with the exception of certain additional collateral requirements. In conjunction with the swap termination, the University received \$31.3 million from the new counterparty and made a termination payment of \$25.3 million to Lehman Brothers Special Financing Inc. These payments were recorded as deferred costs of financing and will be amortized as interest expense over the term of the bonds.

The University's counterparty in the interest rate swap agreement with a notional amount of \$91.2 million was Merrill Lynch Capital Services, Inc. on June 30, 2008. In January 2009, Bank of America Corporation completed its acquisition of Merrill Lynch & Co.

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, 2009, 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> | | | | |
| 2010 | \$ 2,605 | \$ 2,615 | \$ 9,042 | \$ 14,262 |
| 2011 | 2,695 | 2,611 | 8,965 | 14,271 |
| 2012 | 2,800 | 2,608 | 8,886 | 14,294 |
| 2013 | 2,895 | 2,604 | 8,804 | 14,303 |
| 2014 | 3,000 | 2,600 | 8,719 | 14,319 |
| 2015–2019 | 16,735 | 12,934 | 42,201 | 71,870 |
| 2020–2024 | 26,895 | 12,771 | 39,442 | 79,108 |
| 2025–2029 | 44,065 | 11,790 | 33,952 | 89,807 |
| 2030–2034 | 41,725 | 10,283 | 26,682 | 78,690 |
| 2035–2039 | 31,580 | 8,494 | 21,091 | 61,165 |
| 2040–2044 | 61,605 | 5,651 | 13,857 | 81,113 |
| 2045–2047 | 44,390 | 1,246 | 3,028 | 48,664 |
| Total | \$280,990 | \$76,207 | \$224,669 | \$581,866 |

Certificates of Participation

Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are collateralized by buildings and equipment. A portion of the rental payments is provided to the University by a state of California financing appropriation of \$4.5 million and \$3.8 million for the years ended June 30, 2009 and 2008, respectively. All rental payments, including those from any lawfully available cash of The Regents, have been pledged and assigned to a trustee by the lessor.

Capital Leases

The University has entered into lease-purchase agreements with the state of California that are recorded as capital leases. The state sells lease revenue bonds to finance construction of certain state-owned buildings to be used by the University. During the construction phase, the University acts as agent for the state. Bond proceeds remain on deposit with the state, as trustee, until the University is reimbursed as the project is constructed.

Upon completion, the buildings and equipment are leased to the University under terms and amounts that are sufficient to satisfy the state's lease revenue bond requirements with the understanding that the state will provide financing appropriations to the University to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to the University.

The University entered into lease-purchase agreements with the state totaling \$206.8 million and \$302.6 million during the years ended June 30, 2009 and 2008, respectively, to finance the construction of various University projects.

The state of California financing appropriation to the University under the terms of the lease-purchase agreements, recorded as nonoperating revenue, for the years ended June 30, 2009 and 2008 was \$156.6 million and \$160.0 million, respectively. The scheduled principal and interest, including accrued interest, reported in the University's financial statements for the years ended June 30, 2009 and 2008 contain amounts related to these lease-purchase agreements with the state of California as follows:

| (in thousands of dollars) | 2009 | 2008 |
|---------------------------|------------------|------------------|
| Capital lease principal | \$ 96,658 | \$ 77,987 |
| Capital lease interest | 106,166 | 88,983 |
| Total | \$202,824 | \$166,970 |

Capital leases entered into with other lessors, typically for equipment, totaled \$76.2 million and \$58.6 million for the years ended June 30, 2009 and 2008, 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.

The University may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper and to provide interim financing for buildings and equipment. Line of credit commitments, with various expiration dates through June 30, 2013, totaled \$1.07 billion at June 30, 2009. Outstanding borrowings under these bank lines totaled \$118.0 million and \$115.3 million at June 30, 2009 and 2008, respectively.

The state of California may provide interim loans to the University for certain facilities to be financed through their future issuance of lease revenue bonds. The interim loans are repaid from the bond proceeds. There were no outstanding interim loans at June 30, 2009. Outstanding interim loans from the state, classified in the current portion of long-term debt in the University's statement of net assets, totaled \$102.2 million at June 30, 2008.

Student Housing LLC Revenue Bonds

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

The LLC, through its conduit issuer, issued Student Housing LLC Revenue Bonds to finance the construction of the student housing facility. 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 project, and do not constitute general obligations of The Regents.

In July 2008, the LLC, through its conduit issuer, issued additional Student Housing LLC Revenue Bonds totaling \$220.9 million. Proceeds, including a bond premium of \$500 thousand, are available to finance the construction of a new student housing project and related amenities and improvements. The bonds mature at various dates through 2040 and have a weighted average interest rate of 5.9 percent. They 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 project, and do not constitute general obligations of The Regents.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2009 and thereafter are as follows:

(in thousands of dollars)

| | COMMERCIAL PAPER | UNIVERSITY REVENUE BONDS | CERTIFICATES OF PARTICIPATION | CAPITAL LEASES | | OTHER UNIVERSITY BORROWINGS | STUDENT HOUSING LLC REVENUE BONDS | TOTAL PAYMENTS | PRINCIPAL | INTEREST |
|---|------------------|--------------------------|-------------------------------|--------------------|------------------|-----------------------------|-----------------------------------|---------------------|---------------------|--------------------|
| | | | | STATE | OTHER | | | | | |
| <i>Year Ending June 30</i> | | | | | | | | | | |
| 2010 | \$ 665,715 | \$ 546,074 | \$ 1,014 | \$ 197,284 | \$ 57,483 | \$ 132,069 | \$ 19,549 | \$ 1,619,188 | \$ 1,127,705 | \$ 491,483 |
| 2011 | | 551,607 | | 199,291 | 48,963 | 54,610 | 19,762 | 874,233 | 404,367 | 469,866 |
| 2012 | | 561,036 | | 199,260 | 38,927 | 23,081 | 22,340 | 844,644 | 391,514 | 453,130 |
| 2013 | | 559,163 | | 199,319 | 28,905 | 16,314 | 21,589 | 825,290 | 389,251 | 436,039 |
| 2014 | | 557,236 | | 199,233 | 62,429 | 7,278 | 22,280 | 848,456 | 431,810 | 416,646 |
| 2015–2019 | | 2,609,443 | | 869,739 | 16,829 | 10,102 | 118,619 | 3,624,732 | 1,817,373 | 1,807,359 |
| 2020–2024 | | 2,340,280 | | 721,523 | 3,490 | 816 | 120,019 | 3,186,128 | 1,830,201 | 1,355,927 |
| 2025–2029 | | 1,984,172 | | 485,428 | 2,295 | | 120,030 | 2,591,925 | 1,661,855 | 930,070 |
| 2030–2034 | | 1,651,555 | | 237,091 | | | 120,022 | 2,008,668 | 1,469,070 | 539,598 |
| 2035–2039 | | 1,114,228 | | | | | 112,474 | 1,226,702 | 1,006,000 | 220,702 |
| 2040–2044 | | 273,749 | | | | | 16,446 | 290,195 | 236,335 | 53,860 |
| 2045–2047 | | 124,156 | | | | | | 124,156 | 113,565 | 10,591 |
| Total future debt service | 665,715 | 12,872,699 | 1,014 | 3,308,168 | 259,321 | 244,270 | 713,130 | 18,064,317 | \$10,879,046 | \$7,185,271 |
| Less: Interest component of future payments | (190) | (5,599,194) | (39) | (1,162,303) | (30,278) | (13,297) | (379,970) | (7,185,271) | | |
| Principal portion of future payments | 665,525 | 7,273,505 | 975 | 2,145,865 | 229,043 | 230,973 | 333,160 | 10,879,046 | | |
| Adjusted by: | | | | | | | | | | |
| Unamortized deferred financing costs | | | | (77,071) | | | (5,364) | | (82,435) | |
| Unamortized bond premium | | 190,113 | | | | | 2,746 | | 192,859 | |
| Total debt | \$665,525 | \$ 7,386,547 | \$ 975 | \$2,145,865 | \$229,043 | \$230,973 | \$330,542 | \$10,989,470 | | |

Long-term debt does not include \$1.07 billion and \$1.39 billion of defeased liabilities at June 30, 2009 and 2008, respectively. 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 assets.

12. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most University employees participate in UCRS. UCRS consists of the University of California Retirement Plan, a single employer, defined benefit plan funded with University and employee contributions; the University of California Retirement Savings Program that includes four defined contribution plans with options to participate in internally and externally managed investment portfolios generally funded with employee non-elective and elective contributions; and the California Public Employees' Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS-VERIP), a defined benefit plan for University employees who were members of PERS who elected early retirement. The Regents has the authority to establish and amend the benefit plans.

Condensed financial information related to each plan in UCRS for the years ended June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA RETIREMENT PLAN | | UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM | | UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PLAN | | TOTAL | |
|--|---|---------------------|--|---------------------|---|-----------------|---------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| CONDENSED STATEMENT OF PLANS' FIDUCIARY NET ASSETS | | | | | | | | |
| Investments at fair value | \$ 32,709,694 | \$ 42,092,691 | \$ 9,585,015 | \$ 10,362,657 | \$ 58,014 | \$ 76,821 | \$ 42,352,723 | \$ 52,532,169 |
| Participants' interest in mutual funds | | | 2,923,695 | 3,772,901 | | | 2,923,695 | 3,772,901 |
| Investment of cash collateral | 6,596,311 | 7,985,216 | 3,742,295 | 4,162,266 | 11,679 | 14,590 | 10,350,285 | 12,162,072 |
| Other assets | 818,983 | 742,520 | 143,069 | 145,543 | 1,260 | 1,109 | 963,312 | 889,172 |
| Total assets | 40,124,988 | 50,820,427 | 16,394,074 | 18,443,367 | 70,953 | 92,520 | 56,590,015 | 69,356,314 |
| Collateral held for securities lending | 6,619,824 | 8,028,770 | 3,755,636 | 4,180,415 | 11,721 | 14,669 | 10,387,181 | 12,223,854 |
| Other liabilities | 1,246,622 | 768,495 | 155,387 | 178,908 | 2,291 | 1,515 | 1,404,300 | 948,918 |
| Total liabilities | 7,866,446 | 8,797,265 | 3,911,023 | 4,359,323 | 14,012 | 16,184 | 11,791,481 | 13,172,772 |
| Net assets held in trust | \$32,258,542 | \$42,023,162 | \$12,483,051 | \$14,084,044 | \$ 56,941 | \$76,336 | \$44,798,534 | \$56,183,542 |
| CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET ASSETS | | | | | | | | |
| Contributions | \$ 1,754 | \$ 4,048 | \$ 927,230 | \$ 1,033,850 | | | \$ 928,984 | \$ 1,037,898 |
| Net depreciation in fair value of investments | (9,022,624) | (3,996,828) | (2,285,781) | (975,920) | \$ (16,364) | \$ (7,207) | (11,324,769) | (4,979,955) |
| Investment and other income, net | 1,117,720 | 1,403,039 | 392,415 | 482,030 | 1,966 | 2,515 | 1,512,101 | 1,887,584 |
| Total additions (reductions) | (7,903,150) | (2,589,741) | (966,136) | 539,960 | (14,398) | (4,692) | (8,883,684) | (2,054,473) |
| Benefit payment and participant withdrawals | 1,829,017 | 1,888,679 | 630,889 | 910,365 | 4,988 | 5,114 | 2,464,894 | 2,804,158 |
| Plan expense (surplus) | 32,453 | 36,557 | 3,968 | (969) | 9 | 7 | 36,430 | 35,595 |
| Transfer of assets to the LLNS defined benefit plan | | | 1,567,209 | | | | | 1,567,209 |
| Total deductions | 1,861,470 | 3,492,445 | 634,857 | 909,396 | 4,997 | 5,121 | 2,501,324 | 4,406,962 |
| Decrease in net assets held in trust | (9,764,620) | (6,082,186) | (1,600,993) | (369,436) | (19,395) | (9,813) | (11,385,008) | (6,461,435) |
| Net assets held in trust | | | | | | | | |
| Beginning of year | 42,023,162 | 48,105,348 | 14,084,044 | 14,453,480 | 76,336 | 86,149 | 56,183,542 | 62,644,977 |
| End of year | \$32,258,542 | \$42,023,162 | \$12,483,051 | \$14,084,044 | \$ 56,941 | \$76,336 | \$44,798,534 | \$56,183,542 |

Additional information on the retirement plans can be obtained from the 2008-2009 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Program and the University of California PERS-VERIP.

University of California Retirement Plan

The University of California Retirement Plan (UCRP) provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees of the University of California and its affiliates. Membership in the retirement plan is required for all employees appointed to work at least 50 percent time 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 of service within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined by salary rate, age and years of service credit with certain cost of living adjustments. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a consecutive 36-month period, subject to certain limits imposed under the Internal Revenue Code.

The University's membership in UCRP consisted of the following at July 1, 2008, the date of the latest actuarial valuation:

| | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | UNIVERSITY OF CALIFORNIA |
|--|------------------------------|---------------------------|--------------------------|
| Retirees and beneficiaries receiving benefits | 37,722 | 12,329 | 50,051 |
| Inactive members entitled to, but not yet receiving benefits | 49,599 | 14,875 | 64,474 |
| Active members: | | | |
| Vested | 62,234 | 1,663 | 63,897 |
| Nonvested | 49,458 | 670 | 50,128 |
| Total active members | 111,692 | 2,333 | 114,025 |
| Total membership | 199,013 | 29,537 | 228,550 |

Contribution Policy

The Regents' contribution policy provides for actuarially determined contributions at rates that maintain the Plan on an actuarially sound basis. The contribution rate is determined using the entry age normal actuarial funding method. The significant actuarial assumptions used to compute the actuarially determined contribution are the same as those used to compute the actuarial accrued liability.

The rates for contributions as a percentage of covered payroll are determined annually pursuant to The Regents' contribution policy and based on recommendations of the consulting actuary. The Regents determines the portion of the total contribution to be made by the University and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. During the years ended June 30, 2009 and 2008, there were no required University or employee contributions other than for service credit buybacks.

LBNL is required to make employer and employee contributions in conformity with The Regents' contribution policy. In addition, under certain circumstances the University makes contributions to UCRP in behalf of LANL and LLNL retirees based upon a contractual arrangement with the DOE designed to maintain the 100 percent funded status of the LANL and LLNL segments within UCRP, and is reimbursed by the DOE.

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.

UCRP Benefits and Obligation to UCRP

The University's annual UCRP benefit expense is independently calculated for the campuses and medical centers and the DOE laboratories based upon the actuarially determined annual required contributions. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities or surplus over a period of up to 30 years.

The University's annual UCRP benefit expense for the year and related information for the years ended June 30, 2009 and 2008, segregated between the University and the DOE responsibility, is as follows:

(in thousands of dollars)

| | CAMPUSES AND MEDICAL CENTERS | | DOE NATIONAL LABORATORIES | | UNIVERSITY OF CALIFORNIA | |
|--|------------------------------|--------------|---------------------------|--------------|--------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Actuarial valuation date | July 1, 2008 | July 1, 2007 | July 1, 2008 | July 1, 2007 | July 1, 2008 | July 1, 2007 |
| Annual required contribution | \$ 69,138 | \$ 2,622 | \$ 12 | \$ 11 | \$ 69,150 | \$ 2,633 |
| Interest on obligation to UCRP | | | | | | |
| Adjustment to annual required contribution | | | | | | |
| Annual UCRP cost | 69,138 | 2,622 | 12 | 11 | 69,150 | 2,633 |
| University contributions to UCRP | (442) | (2,622) | (12) | (11) | (454) | (2,633) |
| Increase in obligation to UCRP | 68,696 | - | - | - | 68,696 | - |
| Obligation to UCRP | | | | | | |
| Beginning of year | - | - | - | - | - | - |
| End of year | \$68,696 | \$ - | \$ - | \$ - | \$68,696 | \$ - |
| UCRP benefit reimbursement from the DOE during the year | | | \$ 12 | \$ 11 | \$ 12 | \$ 11 |

The annual UCRP benefit cost, percentage of the annual UCRP benefit cost contributed to UCRP, and the net obligation to UCRP for the University for the year ended June 30, 2009 and the preceding years are as follows:

(in thousands of dollars)

| | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | UNIVERSITY OF CALIFORNIA |
|---|------------------------------|---------------------------|--------------------------|
| Annual UCRP benefit cost: | | | |
| June 30, 2009 | \$69,138 | \$ 12 | \$69,150 |
| June 30, 2008 | 2,622 | 11 | 2,633 |
| June 30, 2007 | 6,359 | 17,575 | 23,934 |
| Percentage of annual cost contributed: | | | |
| June 30, 2009 | 0.6% | 100.0% | 0.7% |
| June 30, 2008 | 100.0% | 100.0% | 100.0% |
| June 30, 2007 | 100.0% | 100.0% | 100.0% |
| Net obligation to UCRP: | | | |
| June 30, 2009 | \$68,696 | \$ - | \$68,696 |
| June 30, 2008 | - | - | - |
| June 30, 2007 | - | - | - |

Funded Status

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future.

All assets of UCRP 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 funded status of UCRP as of July 1, 2008 was as follows:

(in thousands of dollars)

| | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | UNIVERSITY OF CALIFORNIA |
|---|------------------------------|---------------------------|--------------------------|
| Actuarial value of plan assets | \$ 35,496,354 | \$ 8,231,167 | \$ 43,727,521 |
| Actuarial accrued liability | (34,340,516) | (8,127,226) | (42,467,742) |
| Excess actuarial value of assets | \$ 1,155,838 | \$ 103,941 | \$ 1,259,779 |
| Funded ratio | 103.4% | 101.3% | 103.0% |
| Covered payroll | \$ 7,245,447 | \$ 204,349 | \$ 7,449,796 |
| Excess actuarial value of assets as a percentage of covered payroll | 16.0% | 50.9% | 16.9% |

The Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. However, the financial markets, both domestically and internationally, have deteriorated over the past year. The fair value of investments held by UCRP declined subsequent to July 1, 2008. The actuarial value of plan assets also declined. As a result, the funded ratio as of the July 1, 2009 actuarial valuation for the campuses and medical centers as well as the DOE laboratories is expected to be approximately 94.8 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based upon the plan as understood by the University and plan members, and include the types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between the University and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methods and assumptions used in the valuation were:

- assumed return on investment of 7.5 percent per year;
- projected salary increases ranging from 4.35–7.0 percent per year;
- projected inflation at 3.5 percent;
- Entry Age Normal actuarial cost method;
- future life expectancy based upon recent group mortality experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations for campuses, medical centers and LBNL.

The actuarial value of assets was determined by smoothing the effect of short-term volatility in the fair value of investments over a five-year period. The actuarial value of assets in excess of the actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2008 for campuses and medical centers, the DOE national laboratories and total UCRP was one, three and one year, respectively.

University of California Retirement Savings Program

The University of California Retirement Savings Program includes four defined contribution plans providing retirement savings incentives that are generally available to all University employees. Participants' interests in the plans are fully and immediately vested and are distributable at retirement, termination of employment or death. Participants may also elect to defer distribution of the account until age 70 ½ or separation from service after age 70 ½, whichever is later, in accordance with Internal Revenue Code minimum distribution requirements. The plans also accept qualified rollover contributions.

Defined Contribution Plans

The Defined Contribution Plan (DC Plan) accepts both after-tax and pretax employee contributions that are fully vested. Pretax contributions are mandatory for all employees who are members of UCRP, as well as Safe Harbor participants—part-time, seasonal and temporary employees who are not covered by Social Security. For UCRP members, monthly employee contributions range from approximately 2.0 percent to 4.0 percent of covered wages depending upon whether wages are below or above the Social Security wage base. For Safe Harbor participants, monthly employee contributions are 7.5 percent of covered wages.

The University has a provision for matching employer and employee contributions to the DC Plan for certain summer session teaching or research compensation for eligible academic employees. The University may also make contributions in behalf of certain members of management. Employer contributions to the DC Plan were \$5.3 million and \$5.8 million for the years ended June 30, 2009 and 2008, respectively.

The University established a Supplemental Defined Contribution Plan (SDC Plan) on January 1, 2009 to accept employer contributions in behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. Employer contributions to the SDC Plan were \$42.4 thousand for the year ended June 30, 2009.

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 \$2.2 million and \$2.3 million for the years ended June 30, 2009 and 2008, respectively.

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, 2009 and 2008.

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' interest in mutual funds is shown separately in the statement of plans' fiduciary net assets.

University of California PERS–VERIP

The University of California PERS–VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC–PERS members who elected early retirement under provisions of the plan.

The University contributed to PERS in behalf of these UC–PERS members. At July 1, 2008 there are 733 retirees or beneficiaries receiving benefits under this voluntary early retirement program.

The University and the DOE laboratories previously made contributions to the plan sufficient to maintain the promised benefits. The annual required contribution, net obligation to PERS–VERIP and any changes or adjustments to that obligation are all zero for the years ending June 30, 2009, 2008 and 2007.

13. RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their eligible family members (retirees) of the University of California and its affiliates. The Regents has the authority to establish and amend the plans. Additional information can be obtained from the 2008–2009 annual report of the University of California Health and Welfare Program.

Membership in UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at July 1, 2008, the date of the latest actuarial valuation:

| | CAMPUSES AND MEDICAL CENTERS | LBNL | UNIVERSITY OF CALIFORNIA |
|--|------------------------------|--------------|--------------------------|
| Retirees who are currently receiving benefits | 31,473 | 1,660 | 33,133 |
| Employees who may receive benefits at retirement | 113,083 | 2,693 | 115,776 |
| Total membership | 144,556 | 4,353 | 148,909 |

Contribution Policy

The contribution requirements of the University and eligible retirees are established and may be amended by the University. The contribution requirements are based upon projected pay-as-you-go financing. University and retiree contributions toward premiums made under purchased plan arrangements are determined by applying the health plan contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the University based upon a trend analysis of the historic cost, utilization, demographics and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability.

Contributions toward medical and dental benefits are shared between the University and the retiree. Contributions toward wellness benefits are made by the University. The University does not contribute toward the cost of other benefits available to retirees. Retirees 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 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service.

Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the University's contribution.

In addition to the explicit University contribution provided to retirees, there is an "implicit subsidy". The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than active employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for active employees by the University are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from the University.

Retiree Health Benefit Expense and Obligation for Retiree Health Benefits

The University's retiree health benefit expense is independently calculated for the campuses and medical centers and LBNL based upon the actuarially determined annual required contribution. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period of up to 30 years.

The University's annual retiree health benefit expense and related information for the years ended June 30, 2009 and 2008, segregated between the University and the DOE responsibility, is as follows:

(in thousands of dollars)

| | CAMPUSES AND MEDICAL CENTERS | | LBNL | | UNIVERSITY OF CALIFORNIA | |
|--|------------------------------|--------------------|------------------|------------------|--------------------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Actuarial valuation date | July 1, 2008 | July 1, 2007 | July 1, 2008 | July 1, 2007 | July 1, 2008 | July 1, 2007 |
| Annual required contribution | \$ 1,550,432 | \$ 1,355,362 | \$ 50,031 | \$ 44,426 | \$ 1,600,463 | \$ 1,399,788 |
| Interest on obligations for retiree health benefits | 59,770 | | 1,732 | | 61,502 | |
| Adjustment to annual required contribution | (108,265) | | (3,138) | | (111,403) | |
| Annual retiree health benefit cost | 1,501,937 | 1,355,362 | 48,625 | 44,426 | 1,550,562 | 1,399,788 |
| University contributions: | | | | | | |
| To UCRHBT | (234,428) | (225,066) | | | (234,428) | (225,066) |
| To healthcare insurers and administrators | | | (11,441) | (10,548) | (11,441) | (10,548) |
| Implicit subsidy | (44,079) | (43,036) | (2,240) | (2,384) | (46,319) | (45,420) |
| Total contributions | (278,507) | (268,102) | (13,681) | (12,932) | (292,188) | (281,034) |
| Increase in obligations for retiree health benefits | 1,223,430 | 1,087,260 | 34,944 | 31,494 | 1,258,374 | 1,118,754 |
| Obligations for retiree health benefits | | | | | | |
| Beginning of year | 1,087,260 | | 31,494 | | 1,118,754 | |
| End of year | \$2,310,690 | \$1,087,260 | \$ 66,438 | \$ 31,494 | \$2,377,128 | \$1,118,754 |
| Retiree health care reimbursement from the DOE during the year | | | \$ 11,441 | \$ 10,548 | \$ 11,441 | \$ 10,548 |
| DOE receivable for obligations for retiree health benefits | | | | | | |
| Noncurrent | | | \$ 66,438 | \$ 31,494 | \$ 66,438 | \$ 31,494 |
| Total | | | \$ 66,438 | \$ 31,494 | \$ 66,438 | \$ 31,494 |

University payments directly to health care insurers and administrators under the University's retiree health plans for retirees who previously worked at LLNL were \$12.0 million for the period from July 1, 2007 through September 30, 2007, the date the University's contract to manage and operate LLNL expired. The DOE reimbursed the University for these payments. As of June 30, 2008, the University had no remaining obligation for LLNL retiree health benefit costs.

Excluding the activity for the period from July 1, 2007 through September 30, 2007 related to LLNL, the annual retiree health benefit cost, percentage of the annual retiree health benefit cost contributed to the retiree health benefit plan, and the net obligation for retiree health benefits for the University for the years ended June 30, 2009 and 2008 are as follows:

| (in thousands of dollars) | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | UNIVERSITY OF CALIFORNIA |
|--|------------------------------|---------------------------|--------------------------|
| Annual retiree health benefit cost: | | | |
| June 30, 2009 | \$ 1,501,937 | \$ 48,625 | \$ 1,550,562 |
| June 30, 2008 | 1,355,362 | 44,426 | 1,399,788 |
| Percentage of annual cost contributed: | | | |
| June 30, 2009 | 18.5% | 28.1% | 18.8% |
| June 30, 2008 | 19.8% | 29.1% | 20.1% |
| Net obligation to the health benefit plan: | | | |
| June 30, 2009 | \$ 2,310,690 | \$ 66,438 | \$ 2,377,128 |
| June 30, 2008 | 1,087,260 | 31,494 | 1,118,754 |

Funded Status

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment return and health care cost trends. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual rates are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of July 1, 2008 was as follows:

| (in thousands of dollars) | CAMPUSES AND MEDICAL CENTERS | LBNL | UNIVERSITY OF CALIFORNIA |
|---|------------------------------|---------------------|--------------------------|
| Actuarial value of plan assets | \$ 51,221 | \$ - | \$ 51,221 |
| Actuarial accrued liability | (13,302,506) | (497,743) | (13,800,249) |
| Unfunded actuarial accrued liability | \$ (13,251,285) | \$ (497,743) | \$ (13,749,028) |
| Value of the implicit subsidy included in the actuarial accrued liability | | | |
| | \$ 1,940,306 | \$ 76,095 | \$ 2,016,401 |
| Funded ratio | 0.4% | 0.0% | 0.4% |
| Covered payroll | \$ 7,245,447 | \$ 204,349 | \$ 7,449,796 |
| Unfunded actuarial accrued liability as a percentage of covered payroll | (182.9%) | (243.6%) | (184.6%) |

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based upon the plan as understood by the University and plan members, and include the types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between the University and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methods and assumptions used in the valuation were:

- assumed return on investment of 5.5 percent per year, representing the return on the University's assets expected to be used to finance benefits;
- health care cost trend rate ranging from 10 to 12 percent initially, depending on the type of plan, reduced by increments to an ultimate rate of 5 percent over nine years;
- projected inflation at 3.0 percent;
- amortization of the initial unfunded actuarial liability over 30 years as a flat dollar amount on a closed basis;
- amortization of future actuarial gains and losses over 15 years as a flat dollar amount on a closed basis;
- amortization of the effects of changes in the plan design, or changes in assumptions, over 30 years as a flat dollar amount on a closed basis;
- Entry Age Normal actuarial cost method;
- future life expectancy based upon recent group mortality experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

14. ENDOWMENTS AND GIFTS

Endowments and gifts are held and administered either by the University or by 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, 2009 and 2008 is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA | | | |
|--|-----------------------------|--------------------------|--------------------|--------------------|
| | RESTRICTED NONEXPENDABLE | RESTRICTED EXPENDABLE | UNRESTRICTED | TOTAL |
| <i>At June 30, 2009</i> | | | | |
| Endowments | \$ 940,249 | \$ 1,180,119 | \$ 26,143 | \$ 2,146,511 |
| Funds functioning as endowments | | 1,689,383 | 1,084,511 | 2,773,894 |
| Annuity and life income | 6,786 | 10,292 | | 17,078 |
| Gifts | | 909,590 | 11,429 | 921,019 |
| University endowments and gifts | \$947,035 | \$3,789,384 | \$1,122,083 | \$5,858,502 |
| <i>At June 30, 2008</i> | | | | |
| Endowments | \$ 939,680 | \$ 1,737,257 | \$ 35,558 | \$ 2,712,495 |
| Funds functioning as endowments | | 2,249,318 | 1,234,456 | 3,483,774 |
| Annuity and life income | 12,822 | 8,243 | | 21,065 |
| Gifts | | 911,102 | 13,455 | 924,557 |
| University endowments and gifts | \$952,502 | \$4,905,920 | \$1,283,469 | \$7,141,891 |

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, subject to the approval of The Regents, amounted to \$1.18 billion and \$1.74 billion at June 30, 2009 and 2008, 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 \$214.6 million and \$210.3 million for the years ended June 30, 2009 and 2008, 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 \$109.6 million and \$89.9 million for the years ended June 30, 2009 and 2008, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was \$520.5 million and \$497.5 million at June 30, 2009 and 2008, 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, 2009 and 2008 is as follows:

(in thousands of dollars)

| | UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | | |
|---|---|--------------------------|-----------------|--------------------|
| | RESTRICTED NONEXPENDABLE | RESTRICTED EXPENDABLE | UNRESTRICTED | TOTAL |
| <i>At June 30, 2009</i> | | | | |
| Endowments | \$ 1,804,815 | \$ 394,587 | | \$ 2,199,402 |
| Funds functioning as endowments | | 763,272 | | 763,272 |
| Annuity and life income | 62,018 | 63,823 | | 125,841 |
| Gifts | | 729,974 | \$ 11,829 | 741,803 |
| Campus foundations' endowments and gifts | \$1,866,833 | \$1,951,656 | \$11,829 | \$3,830,318 |
| <i>At June 30, 2008</i> | | | | |
| Endowments | \$ 1,820,279 | \$ 837,531 | | \$ 2,657,810 |
| Funds functioning as endowments | | 873,031 | | 873,031 |
| Annuity and life income | 95,550 | 94,417 | | 189,967 |
| Gifts | | 722,917 | \$ 27,106 | 750,023 |
| Campus foundations' endowments and gifts | \$1,915,829 | \$2,527,896 | \$27,106 | \$4,470,831 |

The campus foundations provided grants to the University's campuses totaling \$444.7 million and \$527.6 million during the years ended June 30, 2009 and 2008, respectively.

15. SEGMENT INFORMATION

The University's significant identifiable activities for which revenue bonds may be outstanding where revenue is pledged in support of revenue bonds are related to the University's medical centers. 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 years ended June 30, 2009 and 2008 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, 2009</i> | | | | | |
| Revenue bonds outstanding | \$ 374,865 | \$ 62,920 | \$ 536,185 | \$ 67,165 | \$ 135,235 |
| Related debt service payments | \$ 32,085 | \$ 2,897 | \$ 25,279 | \$ 6,610 | \$ 7,591 |
| Bonds due serially through | 2047 | 2047 | 2047 | 2047 | 2047 |
| CONDENSED STATEMENT OF NET ASSETS | | | | | |
| Current assets | \$ 345,365 | \$ 179,020 | \$ 531,474 | \$ 325,324 | \$ 470,539 |
| Capital assets, net | 1,014,077 | 630,629 | 1,625,852 | 450,805 | 736,367 |
| Other assets | 23,195 | 6,875 | 29,009 | 5,958 | 14,468 |
| Total assets | 1,382,637 | 816,524 | 2,186,335 | 782,087 | 1,221,374 |
| Current liabilities | 197,567 | 95,940 | 193,061 | 131,193 | 188,801 |
| Long-term debt | 391,125 | 89,636 | 643,731 | 82,002 | 245,783 |
| Other noncurrent liabilities | | | | | 26,032 |
| Total liabilities | 588,692 | 185,576 | 836,792 | 213,195 | 460,616 |
| Invested in capital assets, net of debt | 579,838 | 534,468 | 1,046,892 | 320,904 | 462,741 |
| Restricted | 954 | 6,046 | 19,427 | | 9,536 |
| Unrestricted | 213,153 | 90,434 | 283,224 | 247,988 | 288,481 |
| Total net assets | \$ 793,945 | \$630,948 | \$1,349,543 | \$568,892 | \$ 760,758 |
| CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS | | | | | |
| Operating revenues | \$ 1,077,367 | \$ 584,337 | \$ 1,465,915 | \$ 784,457 | \$ 1,653,150 |
| Operating expenses | (962,080) | (496,158) | (1,250,009) | (660,358) | (1,484,406) |
| Depreciation expense | (57,372) | (33,941) | (81,921) | (29,763) | (67,707) |
| Operating income | 57,915 | 54,238 | 133,985 | 94,336 | 101,037 |
| Nonoperating revenues (expenses) | (2,767) | (1,937) | (18,213) | 1,653 | (20,954) |
| Income before other changes in net assets | 55,148 | 52,301 | 115,772 | 95,989 | 80,083 |
| State and federal capital appropriations | | | 110 | 1,918 | |
| Health systems support | (48,783) | (53,413) | (37,932) | (32,907) | (30,284) |
| Transfers from University, net | 39,261 | 92,399 | 40,779 | 16,627 | |
| Other, including donated assets | | | 40,203 | 1,325 | 2,174 |
| Increase in net assets | 45,626 | 91,287 | 158,932 | 82,952 | 51,973 |
| Net assets—June 30, 2008 | 748,319 | 539,661 | 1,190,611 | 485,940 | 708,785 |
| Net assets—June 30, 2009 | \$ 793,945 | \$630,948 | \$1,349,543 | \$568,892 | \$ 760,758 |
| CONDENSED STATEMENT OF CASH FLOWS | | | | | |
| Net cash provided (used) by: | | | | | |
| Operating activities | \$ 135,522 | \$ 84,206 | \$ 178,430 | \$ 123,096 | \$ 145,913 |
| Noncapital financing activities | (47,152) | (53,413) | (43,057) | (32,907) | (30,284) |
| Capital and related financing activities | (146,493) | (63,780) | (79,227) | (74,150) | (120,680) |
| Investing activities | 4,371 | 10,386 | 38,862 | 2,402 | 3,735 |
| Net increase (decrease) in cash and cash equivalents | (53,752) | (22,601) | 95,008 | 18,441 | (1,316) |
| Cash and cash equivalents ¹ —June 30, 2008 | 176,473 | 95,954 | 124,596 | 132,348 | 128,842 |
| Cash and cash equivalents¹—June 30, 2009 | \$ 122,721 | \$ 73,353 | \$ 219,604 | \$150,789 | \$ 127,526 |

¹ Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool.

(in thousands of dollars)

| UNIVERSITY OF CALIFORNIA MEDICAL CENTERS | | | | | |
|--|-------------------|------------------|--------------------|------------------|-------------------|
| | DAVIS | IRVINE | LOS ANGELES | SAN DIEGO | SAN FRANCISCO |
| <i>Year Ended June 30, 2008</i> | | | | | |
| Revenue bonds outstanding | \$ 387,980 | \$ 62,920 | \$ 538,740 | \$ 70,425 | \$ 137,750 |
| Related debt service payments | \$ 24,481 | \$ 2,897 | \$ 24,835 | \$ 6,613 | \$ 7,855 |
| Bonds due serially through | 2047 | 2047 | 2047 | 2047 | 2047 |
| CONDENSED STATEMENT OF NET ASSETS | | | | | |
| Current assets | \$ 403,624 | \$ 191,009 | \$ 393,910 | \$ 313,957 | \$ 435,359 |
| Capital assets, net | 916,211 | 513,933 | 1,567,561 | 362,821 | 682,856 |
| Other assets | 19,192 | 14,495 | 60,022 | 4,819 | 12,811 |
| Total assets | 1,339,027 | 719,437 | 2,021,493 | 681,597 | 1,131,026 |
| Current liabilities | 188,207 | 91,554 | 191,397 | 104,508 | 165,220 |
| Long-term debt | 402,501 | 88,222 | 639,485 | 91,149 | 229,490 |
| Other noncurrent liabilities | | | | | 27,531 |
| Total liabilities | 590,708 | 179,776 | 830,882 | 195,657 | 422,241 |
| Invested in capital assets, net of debt | 464,101 | 409,689 | 988,051 | 258,570 | 426,809 |
| Restricted | 848 | 13,643 | 51,822 | | 7,705 |
| Unrestricted | 283,370 | 116,329 | 150,738 | 227,370 | 274,271 |
| Total net assets | \$ 748,319 | \$539,661 | \$1,190,611 | \$485,940 | \$ 708,785 |
| CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS | | | | | |
| Operating revenues | \$ 1,029,175 | \$ 526,443 | \$ 1,227,118 | \$ 716,609 | \$ 1,482,838 |
| Operating expenses | (919,204) | (461,029) | (1,117,580) | (627,911) | (1,377,549) |
| Depreciation expense | (57,562) | (20,877) | (51,680) | (27,598) | (60,711) |
| Operating income | 52,409 | 44,537 | 57,858 | 61,100 | 44,578 |
| Nonoperating revenues (expenses) | (7,441) | 2,537 | (24,564) | 173 | (3,014) |
| Income before other changes in net assets | 44,968 | 47,074 | 33,294 | 61,273 | 41,564 |
| State and federal capital appropriations | | | 2,092 | 3,453 | 10,818 |
| Health systems support | (10,557) | (35,292) | (33,125) | (31,297) | (20,065) |
| Transfers (to) from University, net | 33,608 | 85,957 | (21,885) | 9,286 | |
| Other, including donated assets | | | 117,524 | 13,707 | 1,327 |
| Increase in net assets | 68,019 | 97,739 | 97,900 | 56,422 | 33,644 |
| Net assets—June 30, 2007 | 680,300 | 441,922 | 1,092,711 | 429,518 | 675,141 |
| Net assets—June 30, 2008 | \$ 748,319 | \$539,661 | \$1,190,611 | \$485,940 | \$ 708,785 |
| CONDENSED STATEMENT OF CASH FLOWS | | | | | |
| Net cash provided (used) by: | | | | | |
| Operating activities | \$ 90,778 | \$ 68,979 | \$ 100,687 | \$ 82,031 | \$ 85,808 |
| Noncapital financing activities | (8,344) | (35,292) | (55,007) | (31,297) | (20,065) |
| Capital and related financing activities | (132,943) | (57,620) | (111,550) | (50,242) | (127,321) |
| Investing activities | 73,677 | 19,064 | 69,488 | 4,173 | 7,581 |
| Net increase (decrease) in cash and cash equivalents | 23,168 | (4,869) | 3,618 | 4,665 | (53,997) |
| Cash and cash equivalents ¹ —June 30, 2007 | 153,305 | 100,823 | 120,978 | 127,683 | 182,839 |
| Cash and cash equivalents ¹—June 30, 2008 | \$ 176,473 | \$ 95,954 | \$ 124,596 | \$132,348 | \$ 128,842 |

¹ Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool.

Summarized financial information for each medical center is from their separately 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 assets. However, in the medical centers' separately audited financial statements and for segment reporting purposes, these revenues are classified as operating revenue.

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.

Additional information on the individual University of California Medical Centers can be obtained from their separate June 30, 2009 audited financial statements.

16. CAMPUS FOUNDATION 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 years ended June 30, 2009 and 2008 is as follows:

(in thousands of dollars)

| UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | | | | |
|--|-------------------|-------------------|---------------------|---------------------|---------------------|
| | BERKELEY | SAN FRANCISCO | LOS ANGELES | ALL OTHER | TOTAL |
| <i>Year Ended June 30, 2009</i> | | | | | |
| CONDENSED STATEMENT OF NET ASSETS | | | | | |
| Current assets | \$ 100,253 | \$ 132,244 | \$ 283,698 | \$ 332,025 | \$ 848,220 |
| Noncurrent assets | 876,194 | 549,041 | 1,110,560 | 944,953 | 3,480,748 |
| Total assets | 976,447 | 681,285 | 1,394,258 | 1,276,978 | 4,328,968 |
| Current liabilities | 27,506 | 13,921 | 191,977 | 108,974 | 342,378 |
| Noncurrent liabilities | 66,858 | 12,733 | 37,415 | 39,266 | 156,272 |
| Total liabilities | 94,364 | 26,654 | 229,392 | 148,240 | 498,650 |
| Restricted | 881,312 | 654,393 | 1,164,707 | 1,118,077 | 3,818,489 |
| Unrestricted | 771 | 238 | 159 | 10,661 | 11,829 |
| Total net assets | \$ 882,083 | \$ 654,631 | \$ 1,164,866 | \$ 1,128,738 | \$ 3,830,318 |
| CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS | | | | | |
| Operating revenues | \$ 61,111 | \$ 121,936 | \$ 99,136 | \$ 93,818 | \$ 376,001 |
| Operating expenses | (81,402) | (98,417) | (153,122) | (125,285) | (458,226) |
| Operating income (loss) | (20,291) | 23,519 | (53,986) | (31,467) | (82,225) |
| Nonoperating expenses | (207,579) | (77,799) | (227,316) | (199,998) | (712,692) |
| Loss before other changes in net assets | (227,870) | (54,280) | (281,302) | (231,465) | (794,917) |
| Permanent endowments | 49,922 | 18,920 | 45,297 | 40,265 | 154,404 |
| Decrease in net assets | (177,948) | (35,360) | (236,005) | (191,200) | (640,513) |
| Net assets—June 30, 2008 | 1,060,031 | 689,991 | 1,400,871 | 1,319,938 | 4,470,831 |
| Net assets—June 30, 2009 | \$ 882,083 | \$ 654,631 | \$ 1,164,866 | \$ 1,128,738 | \$ 3,830,318 |
| CONDENSED STATEMENT OF CASH FLOWS | | | | | |
| Net cash provided (used) by: | | | | | |
| Operating activities | \$ (20,688) | \$ 22,042 | \$ (54,830) | \$ (37,275) | \$ (90,751) |
| Noncapital financing activities | 45,836 | 17,740 | 45,297 | 38,685 | 147,558 |
| Investing activities | (25,966) | (17,202) | 10,592 | 8,325 | (24,251) |
| Net increase (decrease) in cash and cash equivalents | (818) | 22,580 | 1,059 | 9,735 | 32,556 |
| Cash and cash equivalents—June 30, 2008 | 4,807 | 77,036 | 720 | 68,097 | 150,660 |
| Cash and cash equivalents—June 30, 2009 | \$ 3,989 | \$ 99,616 | \$ 1,779 | \$ 77,832 | \$ 183,216 |

(in thousands of dollars)

| UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS | | | | | |
|--|--------------------|------------------|--------------------|--------------------|--------------------|
| | BERKELEY | SAN FRANCISCO | LOS ANGELES | ALL OTHER | TOTAL |
| <i>Year Ended June 30, 2008</i> | | | | | |
| CONDENSED STATEMENT OF NET ASSETS | | | | | |
| Current assets | \$ 100,624 | \$ 99,964 | \$ 305,082 | \$ 305,393 | \$ 811,063 |
| Noncurrent assets | 1,068,285 | 623,330 | 1,345,929 | 1,198,156 | 4,235,700 |
| Total assets | 1,168,909 | 723,294 | 1,651,011 | 1,503,549 | 5,046,763 |
| Current liabilities | 46,335 | 18,764 | 204,732 | 135,056 | 404,887 |
| Noncurrent liabilities | 62,543 | 14,539 | 45,408 | 48,555 | 171,045 |
| Total liabilities | 108,878 | 33,303 | 250,140 | 183,611 | 575,932 |
| Restricted | 1,058,801 | 689,756 | 1,386,822 | 1,308,346 | 4,443,725 |
| Unrestricted | 1,230 | 235 | 14,049 | 11,592 | 27,106 |
| Total net assets | \$1,060,031 | \$689,991 | \$1,400,871 | \$1,319,938 | \$4,470,831 |
| CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS | | | | | |
| Operating revenues | \$ 86,620 | \$ 113,211 | \$ 185,470 | \$ 151,189 | \$ 536,490 |
| Operating expenses | (124,364) | (125,203) | (141,589) | (148,500) | (539,656) |
| Operating income (loss) | (37,744) | (11,992) | 43,881 | 2,689 | (3,166) |
| Nonoperating expenses | (22,086) | (34,768) | (4,229) | (15,623) | (76,706) |
| Income (loss) before other changes in net assets | (59,830) | (46,760) | 39,652 | (12,934) | (79,872) |
| Permanent endowments | 55,327 | 14,328 | 61,662 | 47,891 | 179,208 |
| Increase (decrease) in net assets | (4,503) | (32,432) | 101,314 | 34,957 | 99,336 |
| Net assets—June 30, 2007 | 1,064,534 | 722,423 | 1,299,557 | 1,284,981 | 4,371,495 |
| Net assets—June 30, 2008 | \$1,060,031 | \$689,991 | \$1,400,871 | \$1,319,938 | \$4,470,831 |
| CONDENSED STATEMENT OF CASH FLOWS | | | | | |
| Net cash provided (used) by: | | | | | |
| Operating activities | \$ (31,308) | \$ 21,768 | \$ 48,209 | \$ (26,410) | \$ 12,259 |
| Noncapital financing activities | 46,767 | 14,328 | 61,662 | 40,603 | 163,360 |
| Investing activities | (11,898) | (60,342) | (109,882) | (4,380) | (186,502) |
| Net increase (decrease) in cash and cash equivalents | 3,561 | (24,246) | (11) | 9,813 | (10,883) |
| Cash and cash equivalents—June 30, 2007 | 1,246 | 101,282 | 731 | 58,284 | 161,543 |
| Cash and cash equivalents—June 30, 2008 | \$ 4,807 | \$ 77,036 | \$ 720 | \$ 68,097 | \$ 150,660 |

17. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$4.13 billion and \$3.33 billion at June 30, 2009 and 2008, respectively.

The University and UCRS have also made commitments to make investments in certain investment partnerships pursuant to provisions in the various partnership agreements. These commitments at June 30, 2009 totaled \$3.57 billion; \$429.2 million and \$3.14 billion for the University and UCRS, respectively.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2009 and 2008 were \$162.7 million and \$147.8 million, respectively. The terms of operating leases extend through December 2039.

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> | MINIMUM ANNUAL LEASE PAYMENTS |
|----------------------------------|--|
| <i>Year Ending June 30</i> | |
| 2010 | \$ 90,617 |
| 2011 | 70,304 |
| 2012 | 51,237 |
| 2013 | 36,519 |
| 2014 | 25,997 |
| 2015–2019 | 48,847 |
| 2020–2024 | 9,426 |
| 2025–2029 | 3,884 |
| 2030–2034 | 4,393 |
| 2035–2039 | 5,014 |
| 2040 | 608 |
| Total | \$346,846 |

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

The University's schedule of funding progress for UCRP and the retiree health plan is presented below.

UCRP

(in thousands of dollars)

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY | EXCESS | FUNDED RATIO | ANNUAL COVERED PAYROLL | EXCESS/COVERED PAYROLL |
|------------------------------|---------------------------|-----------------------------|-------------|--------------|------------------------|------------------------|
| University of California | | | | | | |
| July 1, 2008 | \$ 43,727,521 | \$ 42,467,742 | \$1,259,779 | 103.0% | \$7,449,796 | 16.9% |
| July 1, 2007 | 43,328,050 | 41,335,935 | 1,992,115 | 104.8 | 7,595,421 | 26.2 |
| July 1, 2006 | 41,872,844 | 40,207,322 | 1,665,522 | 104.1 | 8,241,706 | 20.2 |
| Campuses and Medical Centers | | | | | | |
| July 1, 2008 | 35,496,354 | 34,340,516 | 1,155,838 | 103.4 | 7,245,447 | 16.0 |
| July 1, 2007 | 33,581,431 | 31,917,954 | 1,663,477 | 105.2 | 6,720,789 | 24.8 |
| July 1, 2006 | 31,380,900 | 29,728,524 | 1,652,376 | 105.6 | 6,731,201 | 24.5 |
| DOE National Laboratories | | | | | | |
| July 1, 2008 | 8,231,167 | 8,127,226 | 103,941 | 101.3 | 204,349 | 50.9 |
| July 1, 2007 | 9,746,619 | 9,417,981 | 328,638 | 103.5 | 874,632 | 37.6 |
| July 1, 2006 | 10,491,944 | 10,478,798 | 13,146 | 100.1 | 1,510,505 | 0.9 |

Factors significantly affecting trends

The Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. However, the financial markets, both domestically and internationally, have deteriorated over the past year. The fair value of investments held by UCRP declined subsequent to July 1, 2008. The actuarial value of plan assets also declined. As a result, the funded ratio as of the July 1, 2009 actuarial valuation for the campuses and medical centers as well as the DOE laboratories is expected to be approximately 94.8 percent.

Based upon an actuarial experience study, The Regents approved changes to economic assumptions that decreased the projected inflation to 3.5 percent and increased the range for salary increases to between 4.35 and 7.0 percent per year, certain demographic assumptions were modified, and annual covered payroll was reduced to anticipate members who leave active status during the year. These changes in assumptions decreased the July 1, 2007 actuarial accrued liability and annual covered payroll as follows:

(in thousands of dollars)

| | CAMPUSES AND MEDICAL CENTERS | DOE NATIONAL LABORATORIES | UNIVERSITY OF CALIFORNIA |
|-----------------------------|------------------------------|---------------------------|--------------------------|
| Actuarial accrued liability | \$ 481,130 | \$ 52,068 | \$ 533,198 |
| Annual covered payroll | 726,004 | 86,220 | 812,224 |

With the selection of LANS as the successor contractor to the University for the management of LANL effective June 1, 2006, assets and liabilities attributable to UCRP benefits of the approximately 6,500 LANL employees who accepted employment with LANS and elected to participate in the defined benefit plan established by LANS were transferred to the LANS plan as of March 31, 2007. The actuarial value of assets and actuarial value of liabilities at June 1, 2006 related to these transitioning employees, calculated under the terms of the University's contract with the DOE, were \$1.23 billion and \$1.39 billion, respectively. For reporting purposes, the supplemental schedule of funding progress includes both assets and liabilities associated with these transitioning employees through the July 1, 2006 actuarial valuation.

With the selection of LLNS as the successor contractor to the University for the management of the LLNL effective October 1, 2007, assets and liabilities attributable to UCRP benefits of the approximately 3,900 LLNL employees who accepted employment with LLNS and elected to participate in the defined benefit plan established by LLNS were transferred to the LLNS plan as of March 31, 2008. The actuarial value of assets and actuarial value of liabilities at October 1, 2007 related to these transitioning employees, calculated under the terms of the University's contract with the DOE, were \$1.52 billion and \$1.16 billion, respectively. For reporting purposes, the supplemental schedule of funding progress includes both assets and liabilities associated with these transitioning employees through the July 1, 2007 actuarial valuation.

Retiree Health Plan

(in thousands of dollars)

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY | (DEFICIT) | FUNDED RATIO | ANNUAL COVERED PAYROLL | (DEFICIT)/ COVERED PAYROLL | IMPLICIT SUBSIDY INCLUDED IN ACTUARIAL ACCRUED LIABILITY |
|-------------------------------------|---------------------------|-----------------------------|----------------|--------------|------------------------|----------------------------|--|
| University of California | | | | | | | |
| July 1, 2008 | \$51,221 | \$13,800,249 | \$(13,749,028) | 0.4% | \$7,449,796 | (184.6%) | \$2,016,401 |
| July 1, 2007 | None | 12,534,468 | (12,534,468) | 0.0% | 6,913,467 | (181.3%) | 1,867,147 |
| Campuses and Medical Centers | | | | | | | |
| July 1, 2008 | 51,221 | 13,302,506 | (13,251,285) | 0.4% | 7,245,447 | (182.9%) | 1,940,306 |
| July 1, 2007 | None | 12,074,689 | (12,074,689) | 0.0% | 6,720,789 | (179.7%) | 1,792,229 |
| LBNL | | | | | | | |
| July 1, 2008 | None | 497,743 | (497,743) | 0.0% | 204,349 | (243.6%) | 76,095 |
| July 1, 2007 | None | 459,779 | (459,779) | 0.0% | 192,678 | (238.6%) | 74,918 |

CAMPUS FACTS IN BRIEF 2009

| | UCB | UCD | UCI | UCLA | UCM | UCR | UCSD | UCSF | UCSB | UCSC | Systemwide Programs and Administration ³ |
|--|-------------------|------------------|------------------|------------------|----------------|------------------|------------------|----------------|------------------|------------------|---|
| STUDENTS | | | | | | | | | | | |
| Undergraduate fall enrollment | 25,151 | 24,324 | 22,238 | 26,536 | 2,534 | 15,752 | 22,518 | | 18,900 | 15,125 | |
| Graduate fall enrollment | 10,258 | 7,102 | 5,393 | 13,114 | 184 | 2,327 | 5,682 | 4,444 | 2,968 | 1,490 | |
| Total fall enrollment | 35,409 | 31,426 | 27,631 | 39,650 | 2,718 | 18,079 | 28,200 | 4,444 | 21,868 | 16,615 | |
| University Extension enrollment | 28,092 | 61,463 | 25,664 | 89,781 | | 29,530 | 51,152 | | 5,908 | 16,191 | |
| DEGREES CONFERRED¹ | | | | | | | | | | | |
| Bachelor | 6,960 | 5,785 | 5,209 | 7,089 | 74 | 3,544 | 5,328 | 255 | 4,977 | 3,450 | |
| Advanced | 3,271 | 1,773 | 1,404 | 4,268 | 2 | 597 | 1,795 | 542 | 935 | 409 | |
| Cumulative | 550,208 | 207,549 | 129,002 | 469,054 | 133 | 76,172 | 131,344 | 46,770 | 182,330 | 80,533 | |
| FACULTY AND STAFF (full-time equivalents) | 14,444 | 21,037 | 12,793 | 29,203 | 999 | 4,848 | 19,023 | 18,689 | 6,230 | 4,720 | 2,926 |
| LIBRARY COLLECTIONS⁵ (volumes) | 10,441,285 | 3,681,744 | 2,622,259 | 8,393,588 | 110,602 | 2,527,607 | 3,372,785 | 656,631 | 2,948,999 | 1,613,168 | |
| CAMPUS LAND AREA (in acres) | 6,679 | 7,019 | 1,474 | 419 | 7,045 | 1,913 | 2,141 | 255 | 1,055 | 6,088 | 16 |

CAMPUS FINANCIAL FACTS² (IN THOUSANDS OF DOLLARS)

OPERATING EXPENSES BY FUNCTION

| | | | | | | | | | | | |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|---------------------|---------------------|-------------------|-------------------|---------------------|
| Instruction | \$ 545,062 | \$ 559,618 | \$ 446,395 | \$ 1,117,861 | \$ 21,271 | \$ 164,933 | \$ 474,703 | \$ 214,882 | \$ 204,167 | \$ 126,517 | \$ 390,841 |
| Research | 481,914 | 453,416 | 226,178 | 635,425 | 12,891 | 95,875 | 609,965 | 662,229 | 153,561 | 111,044 | 298,106 |
| Public service | 60,678 | 57,391 | 11,349 | 91,685 | 6,247 | 4,230 | 16,808 | 74,517 | 7,557 | 15,495 | 145,164 |
| Academic support | 114,608 | 142,811 | 125,854 | 321,369 | 10,678 | 40,556 | 190,073 | 281,482 | 39,977 | 31,641 | 192,968 |
| Student services | 120,831 | 60,829 | 58,543 | 70,056 | 7,620 | 41,544 | 62,338 | 16,321 | 68,234 | 51,513 | 56,264 |
| Institutional support | 131,883 | 90,322 | 44,805 | 144,443 | 25,400 | 46,797 | 121,632 | 111,018 | 39,593 | 36,233 | 262,403 |
| Operation & maintenance of plant | 71,377 | 89,859 | 38,053 | 96,821 | 11,559 | 27,795 | 69,355 | 55,010 | 32,203 | 24,757 | 47,992 |
| Student financial aid | 77,753 | 51,203 | 64,346 | 71,197 | (1,279) | 39,094 | 58,932 | 34,122 | 48,804 | 12,979 | 1,323 |
| Medical centers | | 976,359 | 498,903 | 1,224,887 | | | 692,853 | 1,519,637 | | | 313,073 |
| Auxiliary enterprises | 118,249 | 89,997 | 116,385 | 243,858 | 7,262 | 50,440 | 110,933 | 33,199 | 75,167 | 83,615 | 40,547 |
| Depreciation & amortization | 144,210 | 174,637 | 116,691 | 239,280 | 17,830 | 52,013 | 174,200 | 154,093 | 67,600 | 45,147 | 11,703 |
| Other ⁴ | 21,890 | 3,526 | 6,312 | 33,097 | 18,780 | 2,120 | 2,182 | 8,761 | 9,435 | 765 | (1,592) |
| Total | \$ 1,888,455 | \$ 2,749,968 | \$ 1,753,814 | \$ 4,289,979 | \$ 138,259 | \$ 565,397 | \$ 2,583,974 | \$ 3,165,271 | \$ 746,298 | \$ 539,706 | \$ 1,758,792 |

GRANTS AND CONTRACTS REVENUE

| | | | | | | | | | | | |
|--------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| Federal government | \$ 347,605 | \$ 348,357 | \$ 219,802 | \$ 604,235 | \$ 14,853 | \$ 89,710 | \$ 584,293 | \$ 506,352 | \$ 140,296 | \$ 102,519 | \$ 24,775 |
| State government | 77,195 | 106,536 | 50,818 | 56,011 | 25,491 | 11,707 | 42,115 | 58,137 | 11,175 | 9,240 | 60,349 |
| Local government | 10,942 | 12,748 | 5,025 | 40,128 | 266 | 2,397 | 11,201 | 110,986 | 1,029 | 339 | 4,265 |
| Private | 174,103 | 115,524 | 57,611 | 168,476 | 3,634 | 17,055 | 175,215 | 222,400 | 43,717 | 31,981 | 6,971 |
| Total | \$ 609,845 | \$ 583,165 | \$ 333,256 | \$ 868,850 | \$ 44,244 | \$ 120,869 | \$ 812,824 | \$ 897,875 | \$ 196,217 | \$ 144,079 | \$ 96,360 |

UNIVERSITY ENDOWMENTS

| | | | | | | | | | | | |
|----------------------------|--------------|------------|-----------|------------|-----------|-----------|------------|------------|-----------|-----------|------------|
| Endowments | \$ 1,559,033 | \$ 401,579 | \$ 45,167 | \$ 982,212 | \$ 16,251 | \$ 32,456 | \$ 148,969 | \$ 671,904 | \$ 66,183 | \$ 51,407 | \$ 962,322 |
| Annual income distribution | 78,045 | 20,110 | 2,738 | 38,589 | 1,220 | 1,728 | 6,139 | 34,192 | 3,257 | 2,343 | 26,267 |

CAMPUS FOUNDATIONS' ENDOWMENTS

| | | | | | | | | | | |
|------------|------------|------------|------------|------------|----------|-----------|------------|------------|-----------|-----------|
| Endowments | \$ 827,808 | \$ 155,855 | \$ 161,314 | \$ 997,111 | \$ 4,361 | \$ 67,177 | \$ 308,012 | \$ 424,820 | \$ 98,942 | \$ 43,115 |
|------------|------------|------------|------------|------------|----------|-----------|------------|------------|-----------|-----------|

CAPITAL ASSETS

| | | | | | | | | | | | |
|-----------------------------------|--------------|--------------|--------------|--------------|------------|------------|--------------|--------------|--------------|------------|------------|
| Capital assets, at net book value | \$ 2,726,864 | \$ 2,857,036 | \$ 2,406,782 | \$ 4,615,932 | \$ 367,179 | \$ 953,556 | \$ 2,440,284 | \$ 2,641,861 | \$ 1,237,587 | \$ 889,272 | \$ 140,562 |
| Capital expenditures | 382,480 | 401,908 | 415,525 | 542,218 | 22,386 | 94,352 | 376,460 | 396,945 | 106,953 | 160,487 | 9,796 |

¹ As of academic year 2007-08.

² Excludes DOE laboratories.

³ Includes expenses for Systemwide education and research programs, Systemwide support services and administration. Full-time equivalents count, as of fall 2008, includes employees at all campuses involved in systemwide activities, including Agriculture and Natural Resources.

⁴ Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.

⁵ As of June 30, 2008.

THE REGENTS AND OFFICERS OF THE UNIVERSITY OF CALIFORNIA

APPOINTED REGENTS (in order of accession to the Board)

Joanne Corday Kozberg, *Beverly Hills*
Sherry L. Lansing, *Los Angeles*
Odessa P. Johnson, *Modesto*
George M. Marcus, *Palo Alto*
Monica C. Lozano, *Los Angeles*
Norman J. Pattiz, *Culver City*
Richard C. Blum, *San Francisco*
Frederick R. Ruiz, *Dinuba*
Paul D. Wachter, *Santa Monica*
Eddie R. Island, *Santa Monica*
Russell S. Gould, *Sacramento*
Leslie Tang Schilling, *San Francisco*
William C. De La Pena, *Montebello*
Bruce D. Varner, *Riverside*
Bonnie M. Reiss, *Santa Monica*
Hadi Makarechian, *Newport Beach*
George D. Kieffer, *Los Angeles*
Charlene R. Zettel, *Encinitas*
Jesse M. Bernal, *Santa Barbara*

EX OFFICIO REGENTS

Arnold Schwarzenegger, *Governor of California*
John Garamendi, *Lieutenant Governor of California*
Karen Bass, *Speaker of the Assembly*
Jack O'Connell, *State Superintendent of Public Instruction*
Ronald W. Stovitz, *President, Alumni Associations of the University of California*
Yolanda Nunn Gorman, *Vice President, Alumni Associations of the University of California*
Mark G. Yudof, *President of the University*

REGENTS DESIGNATE (non-voting)

Rex Hime, *Secretary, Alumni Associations of the University of California*
Darek A. DeFreece, *Treasurer, Alumni Associations of the University of California*
Jesse Cheng, *Student Regent Designate*

FACULTY REPRESENTATIVES (non-voting)

Henry Powell, *Chair, Academic Council*
Daniel Simmons, *Vice Chair, Academic Council*

OFFICERS OF THE REGENTS

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Russell S. Gould, *Chairman*
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The University of California

Working to serve California,
the nation and the world
through education, research
and public service

More than 50,720 freshmen and transfer students began a UC education in fall 2008.

More than half of all UC undergraduates receive grants or scholarships. Among the nation's top research universities, UC enrolls the highest proportion of low-income students.

UC offers more than 150 academic disciplines, with more departments ranked in the top 10 nationally than at any other public or private university.

UC operates the largest health sciences training program in the nation: 16 professional schools where California's doctors, nurses, dentists, pharmacists and public health professionals are educated.

UC leads all U.S. research universities in the number of patents granted. UC's invention portfolio increased more than 8 percent in 2008 to total 8,953.

More than 1,100 California biotech and R&D companies have benefited from UC research.

The university's five medical centers receive 3.8 million outpatient visits a year, 261,000 emergency room visits and 140,000 inpatient admissions.

More than 100 campus libraries, housing more than 32 million books, are open to the public along with more than 35 museums and galleries.

UC operates California's 4-H program, serving more than 130,000 young people in rural and urban communities.

UC manages a 135,000-acre Natural Reserve System, providing laboratories in the wild for researchers from around the globe.

Campuses

- 1 Berkeley
- 2 Davis
- 3 Irvine
- 4 Los Angeles
- 5 Merced
- 6 Riverside
- 7 San Diego
- 8 San Francisco
- 9 Santa Barbara
- 10 Santa Cruz

National Laboratories

- A E.O. Lawrence Berkeley National Laboratory
- B Lawrence Livermore National Laboratory
- C Los Alamos (N.M.) National Laboratory





Annual Financial Report 2008-2009
University of California
Financial Management
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Oakland, CA 94607-5200

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF CERTAIN DOCUMENTS

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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.

“Act of Bankruptcy” means any of the following with respect to any Person: (a) the commencement by such Person of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence an involuntary case against such Person under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, trustee, custodian or liquidator of such Person or such Person’s assets shall be appointed in any proceeding brought against the Person or such Person’s assets; (e) assignment by such Person for the benefit of its creditors; or (f) the entry by such Person into an agreement of composition with its creditors.

“Additional Payments” means the amounts payable to the Issuer, the Trustee or other Persons pursuant to the Loan Agreement.

“Authorized Denomination” means \$5,000 or any integral multiple of \$5,000 thereof.

“Authorized Borrower Representative” means any person who at the time and from time to time may be designated, by written certificate furnished to the Issuer and the Trustee, as a person authorized to act on behalf of the Borrower. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the Borrower by any officer of the Borrower and may designate an alternate or alternates.

“Authorized Issuer Representative” means the Chair of the Issuer, the Executive Director of the Issuer, or any person who at the time and from time to time may be designated by the Chair of the Issuer by written certificate furnished to the Trustee and the Borrower, as a person authorized to act on behalf 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 in a manner consistent with the Borrower’s most recently audited financial statements.

“Base Rent” means, the amount payable by The Regents, as lessee, 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 March 1, 2010, 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 January 26, 2010 pursuant to the Act which authorizes the issuance of the Bonds.

“Bonds” means the Series 2010A Bonds and the Series 2010B Bonds 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 Ground Lease Agreement, 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 Certificate, dated as of March 1, 2010, executed and delivered by The Regents pursuant to the CFIA Ground Lease, 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 shall 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, Edgemoor/McCarthy Cook, Partners, L.L.C., a California limited liability corporation, 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.

“Direct BABs Payments” mean payments from the Secretary of the U.S. Treasury pursuant to Sections 54AA(g)(1) and 6431 of the Code to the Issuer or its designee, which payments are expected to be in an amount equal to 35% of the interest payable on the Series 2010B Bonds on each Interest Payment Date.

“Direct Payment Build America Bonds” means Bonds that qualify under Sections 54AA(g)(1) and 6431 of the Code for direct payments from the Secretary of the U.S. Treasury to the Issuer of 35% of the interest payable on such Bonds on each Interest Payment Date.

“Disbursement Agreement” means, that certain Disbursement Agreement, dated as of March 1, 2010, 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 Notice” means notice given through means of telecopy, telegraph, telegram, telex, facsimile transmission, e-mail or other similar electronic means of communication confirmed by writing or written transmission.

“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 shall 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.

“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 Facilities or to Persons on or about the Facilities or (ii) cause the Facilities 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 Facilities or the owners and/or occupants of property adjacent to or surrounding the Facilities, or any other Person coming upon the Facilities 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 November 15, 2010.

“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.

“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 shall be dissolved or liquidated or shall no longer perform the functions of a nationally-recognized statistical rating organization, then the term “Moody’s” shall be deemed to refer to any other nationally-recognized statistical rating organization selected by the Borrower.

“Net Proceeds” means the proceeds from insurance or from actual or threatened condemnation or eminent domain actions with respect to the 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” shall mean a written notice meeting the requirements of the Indenture mailed by first class mail, postage prepaid, to the Owners of specified Bonds, at the addresses shown on the Bond Register.

“Opinion of 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 shall 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 shall have been authenticated and delivered by the Trustee pursuant to the Indenture; and
- (c) Bonds with respect to which the liability of the Issuer and the Borrower have been discharged to the extent provided in, and pursuant to the requirements of, the Indenture.

“Owner” means, as of any time, the registered owner of any Bond as set forth in the Bond Register.

“Permitted Encumbrances” shall have 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 long-term ratings category or higher by S&P or Moody’s 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 shall allow the Trustee, at the direction of the Borrower, the option to replace such financial institution or shall provide for such investment to be fully collateralized by investments described in clause (1) 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 AAA-M-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 shall be conducted, or such other office designated by the Trustee from time to time.

"Principal Installment" means, with respect to any Principal Installment Date, the sum of (a) the aggregate amount of principal due with respect to Bonds that mature on such Principal Installment Date, plus (b) the aggregate amount of Sinking Fund Installments due on such Principal Installment Date.

"Principal Installment Date" means any date on which any Bonds mature or any date on which any of the Bonds are subject to redemption from mandatory Sinking Fund Installments.

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

"Project Documents" shall have 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.

"Recovery Act" shall mean the American Recovery and Reinvestment Act of 2009.

"Reserved Rights" means (i) the Issuer's right to obtain notices, reports 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 Agreements and Loan Agreement, provided, that the Issuer shall retain the exclusive right, as the taxpayer pursuant to the Internal Revenue Service Form 8038, which shall 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 Direct BABs Payments 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 shall not include Additional Payments.

“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.

“Series 2010A Bonds” means the California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010A issued under the Indenture.

“Series 2010B Bonds” means the California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010B (Taxable – Build America Bonds) issued under the Indenture.

“Series 2010A Bonds Tax Agreement” means the Tax Certificate and Agreement related to the Series 2010A Bonds, dated as of the Closing Date, by and among the Issuer, The Regents and the Borrower, as the same may be amended from time to time.

“Series 2010B Bonds Tax Agreement” means the Tax Certificate and Agreement related to the Series 2010B Bonds, dated as of the Closing Date, by and among the Issuer, The Regents and the Borrower, as the same may be amended from time to time.

“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 shall be dissolved or liquidated or shall no longer perform the functions of a nationally-recognized statistical rating organization, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally-recognized statistical rating organization selected by the Borrower.

“State” means the State of California.

“Tax Agreements” means, collectively, the Series 2010A Bonds Tax Agreement and the Series 2010B Bonds Tax Agreement.

“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.

“Treasury Rate” means, with respect to any redemption date for a particular Series 2010B Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two (2) Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2010B Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

“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” shall have 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 shall establish the “UCSF Neuroscience Facility Construction Fund” (the “Construction Fund”) and within the Construction Fund the “Series 2010A General Cost Subaccount” (the “Series 2010A General Cost Subaccount”), the “Series 2010B General Cost Subaccount” (the “Series 2010B General Cost Subaccount”), the “Series 2010A Development Cost Subaccount” (the “Series 2010A Development Cost Subaccount”) and the “Series 2010B Development Cost Subaccount” (the “Series 2010B Development Cost Subaccount”). The Trustee shall 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 Agreements, the Disbursement Agreement and the Indenture.

Before each payment is made from the Construction Fund (including any account established therein) by the Trustee, there shall 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 shall also satisfy the requirements of the Disbursement Agreement.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Borrower Representative, the Trustee shall 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 shall transfer any remaining balance in the Construction Fund, including all subaccounts established therein, into a separate account within the Bond Fund, which the Trustee shall establish and hold in trust, and which shall be entitled the “Surplus Account.” The moneys in the Surplus Account shall be used and applied (unless some other application of such moneys is requested by the Borrower and would not, in the Opinion of Bond Counsel addressed to the Issuer, in and of itself, adversely affect the Tax-Exempt status of interest on the Series 2010A Bonds or the status of the Series 2010B Bonds as Build America 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 shall 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 shall 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 shall be transferred to the Surplus Account within the Bond Fund, and all moneys in the Bond Fund shall be used to pay or redeem Bonds.

Costs of Issuance Fund. The Trustee shall establish “UCSF Neuroscience Facility Costs of Issuance Fund” (the “Costs of Issuance Fund”) and within the Costs of Issuance Fund the “Series 2010A Subaccount” (the “Series 2010A Subaccount”), the “Series 2010B Subaccount” (the “Series 2010B Subaccount”). The moneys in the Costs of Issuance Fund and the accounts therein shall be held by the Trustee in trust and applied to the payment of Costs of Issuance of the Bonds, upon a requisition filed with the Trustee 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 shall 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 shall be transferred to the General Cost Subaccount within the Construction Fund and applied in accordance with the Indenture.

Operating Fund. The Trustee shall establish “UCSF Neuroscience Facility Operating Fund” (the “Operating Fund”) and within the Operating Fund the Trustee shall 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, shall 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 shall be deposited into the Proceeds Subaccount and any other moneys deposited into the Operating Fund shall be deposited into the Non-Proceeds Subaccount. The moneys in the Operating Fund and any accounts therein shall 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 shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. All payments from the Operating Fund shall 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 shall constitute a first lien on the Revenues and the other assets pledged therefor pursuant to the Indenture for the payment of the Bonds in accordance with the terms thereof. All Revenues and the other assets pledged under the Indenture shall be held in trust for the benefit of the Owners from time to time of the Bonds but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture 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 shall 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 shall 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 shall be entitled to the protections and limitations from liability afforded it as Trustee under the Indenture. The Trustee also shall 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 shall 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 shall 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 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 Issuer, 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 contained in the Indenture, the Issuer 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 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 shall deposit all Revenues in the "UCSF Neuroscience Facility Bond Fund" (the "Bond Fund"), which the Trustee shall establish and maintain and hold in trust, and which shall be disbursed and applied only as authorized in the Indenture. Except as provided in the Indenture, moneys in

the Bond Fund shall be used solely for the payment of the principal of and interest on the Bonds as the same shall become due whether at maturity or upon redemption or acceleration.

The Trustee shall deposit in the Bond Fund from time to time, upon receipt thereof, all Revenues, including Loan Payments received by the Trustee from or on behalf of the Borrower 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; provided that Direct BABs Payments shall be deposited into a subaccount within the Bond Fund, which the Trustee shall establish and maintain, to be designated as the "Direct BABs Payments Account."

In making payments of principal of and interest on the Bonds, the Trustee shall 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 Agreements, 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, shall 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; provided that any such moneys then on deposit in the Direct BABs Payments Account shall be transferred by the Trustee on the day immediately following an Interest Payment Date directly to The Regents in order to pay the provisional ground rent payable by the Borrower pursuant to the CFIA Ground Lease.

The Trustee shall establish and maintain a separate account in the Bond Fund to be known as the "Capitalized Interest Account" and within such account a "Series 2010A Subaccount" and a "Series 2010B Subaccount" for the purposes set forth in the Indenture. The Trustee shall transfer moneys from the Series 2010A Subaccount within the Capitalized Interest Account in the amounts set forth in the Indenture to the Bond Fund for payment of interest on the Series 2010A Bonds due on the dates set forth in the Indenture. The Trustee shall transfer moneys from the Series 2010B Subaccount within the Capitalized Interest Account in the amounts set forth in the Indenture to the Bond Fund for payment of interest on the Series 2010B 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 shall be included therewith.

Redemption Fund. The Trustee shall 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 a separate Optional Redemption Account and a separate Special Redemption Account. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall 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 and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Trustee shall, 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 the case of the Optional Redemption Account, 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 shall 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. Pursuant to the CFIA Ground Lease, the Borrower has agreed to provide such written direction concerning investments from time to time as approved by The Regents as delegated to the Office of the President of the University of California. In the absence of such written direction, the Trustee shall invest solely in those investments listed in clause (10) of the definition of Permitted Investments. Moneys in any fund or account established pursuant to the Indenture shall be invested in Permitted Investments with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable not later than the date on which such moneys will be required by the Trustee. Investments in any of the funds or accounts established under the Indenture shall be valued at least once each Fiscal Year at the market value thereof.

Unless otherwise provided in the Indenture, any interest, profit or loss on any investments of moneys in any fund or account established under the Indenture shall be credited or charged to the respective fund or account from which such investments are made; provided that, any interest, profit or loss on any investments of moneys in the Bond Fund shall 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) shall be applied to the Series 2010B Subaccount within the Capitalized Interest Account. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss, fee, tax or other charge resulting from any investment, reinvestment or liquidation under the Indenture. Unless otherwise directed by the Borrower, the Trustee may make any investment permitted under 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, shall transfer to the Borrower (free and clear of the pledge and lien of the Indenture) all amounts remaining in any fund held by the Trustee under the Indenture after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture relating to defeasance of the Bonds, (ii) the fees, charges and expenses of the Trustee 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 shall 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 shall be made by the Trustee as provided in the Indenture. The principal of, premium, if any, and interest on the Bonds are payable by the Issuer solely and only from the Revenues, and nothing in the Bonds or the Indenture should be considered as assigning or pledging any other funds or assets of the Issuer, other than such Revenues and the right, title and interest of the Issuer in and to the Loan Agreement (except for Reserved Rights) in the manner and to the extent specified in the Indenture. When and as paid in full, all Bonds

shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee, who shall deliver a certificate evidencing such cancellation to the Borrower and, 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 shall 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 shall not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Issuer, such claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Preservation of Revenues; Rights Under the Loan Agreement.

(a) The Issuer shall not waive any provision of the Loan Agreement 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. 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 requirements 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 shall not issue, or permit to be issued, any Bonds secured or payable in any manner out of Revenues or the other assets pledged under the Indenture in any manner other than in accordance with the provisions of the Indenture, and shall not suffer or permit any default to occur under the Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements thereof.

(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 shall not be obligated to take any action or execute any instrument pursuant to any provision of the Indenture until it shall have been requested to do so by the Borrower or by the Trustee, and shall have received any instrument to be executed and, at the option of the Issuer, shall have received from the party requesting such action or execution assurance satisfactory to the Issuer that the Issuer shall 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 Series 2010A Bonds that the Issuer will not directly or indirectly use the proceeds of any of the Series 2010A Bonds or any other funds of the Issuer or permit the use of the proceeds of any of the Series 2010A Bonds or any other funds of the Issuer or take or omit to take any other action which will cause any of the Series 2010A Bonds to be “arbitrage Series 2010A 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. To that end the Issuer covenants to comply with all covenants set forth in the Series 2010A Bonds Tax Agreement.

The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated “UCSF Neuroscience Facility Rebate Fund” (herein called the “Rebate Fund”). Within the Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Borrower as necessary in order for the Issuer and the Borrower to comply with the terms and requirements of the Series 2010A Bonds Tax Agreement. Subject to the transfer provisions provided in paragraph (c) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Series 2010A Bonds Tax Agreement), for payment to the United States of America, and none of the Borrower, the Issuer nor the Owners shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture, by the Loan Agreement and by the Series 2010A Bonds Tax Agreement. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the directions of the Borrower, including supplying all necessary information requested by the Borrower and the Issuer in the manner set forth in the Series 2010A Bonds Tax Agreement, and shall not be required to take any actions thereunder in the absence of written directions from the Borrower. The Trustee shall 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 Series 2010A Bonds Tax Agreement shall survive the defeasance or payment in full of the Series 2010A Bonds.

Notwithstanding any provisions of the Indenture and the Loan Agreement, if the Borrower shall 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 Series 2010A 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 shall be deemed to be modified to that extent.

(b) The Series 2010B Bonds shall be issued as taxable bonds. The Issuer will not make any use of the proceeds of the Series 2010B Bonds or any other funds of Issuer which will cause any Series 2010B Bond to be an “arbitrage bond” subject to federal income taxation by reason of Section 148 of the Code, or a “federally-guaranteed obligation” under Section 149(b) of the Code, or a “private activity bond” as described in Section 141 of the Code. To that end, the Issuer, with respect to such proceeds and such other funds will comply with all requirements of such sections of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

If at any time the Issuer is of the opinion that for purposes of the Indenture relating to rebate, 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 Issuer shall so instruct the Trustee or the appropriate officers of the Borrower in writing, and the Trustee or the appropriate officers of the Borrower, as the case may be, shall take such actions as may be necessary in accordance with such instructions. The Trustee may conclusively rely on any instructions received by the Issuer under the Indenture, and shall have no obligations to perform any rebate calculations.

In furtherance of the covenants of the Issuer set forth above, the Issuer will comply with the Series 2010B Bonds Tax Agreement and will cause the Trustee to comply with the Series 2010B Bonds Tax Agreement.

Other Liens. So long as any Bonds are Outstanding, the Issuer shall not create any pledge, lien or charge of any type whatsoever upon all or any part of the Revenues or the other assets pledged under the Indenture, other than the lien of the Indenture.

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, 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 shall not enter into any contract or take any action by which the rights of the Trustee or the Owners may be impaired and whenever and so often as requested so to do by the Trustee, the Issuer shall promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all of the rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

Default

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

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

(ii) Failure to make due and punctual payment of the principal of any Outstanding Bond when such payment shall have become due and payable, whether at the stated maturity thereof, or upon proceedings for the mandatory redemption thereof from Sinking Fund Installments or upon the maturity thereof by declaration;

(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, shall 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 shall constitute an Event of Default unless the Issuer shall have failed to correct such default within the applicable 30-day period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within the applicable period and diligently pursued until the default is corrected.

(b) Upon the occurrence and continuation of an Event of Default the Trustee, may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding, shall, by notice in writing delivered to the Borrower, with copies of such notice being sent to the Issuer, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default

under clause (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 shall immediately declare all indebtedness payable under the Loan Agreement with respect to the Bonds to be immediately due and payable in accordance with the Loan Agreement and may exercise and enforce such rights as exist thereunder.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, there shall have been deposited with the Trustee a sum which, together with any other amounts then held in the Bond Fund, is sufficient to pay all the principal of such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses (including reasonable attorneys' fees) of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee in its sole discretion or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (by written notice to the Issuer and to the Trustee) may, on behalf of the Owners of all Bonds, rescind and annul such declaration with respect to the Bonds and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Institution of Legal Proceedings by Trustee. If one or more of the Events of Default under the Indenture shall happen and be continuing, the Trustee in its sole discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction in its sole discretion therefor (including with respect to any expenses or liability the Trustee may incur) shall, proceed to protect or enforce its rights or the rights of the Owners under the Act or under the Indenture, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained 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 shall deem most effectual in support of any of its rights or duties under the Indenture.

Application of Moneys Collected by Trustee. Any moneys collected by the Trustee from the Borrower, and any moneys in the Bond Fund on or after the occurrence of an Event of Default shall be applied in the order following, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture.

Second: In case none of the principal of the Outstanding Bonds shall have become due and remains unpaid, to the payment of interest in default on the Outstanding Bonds in the order of the maturity thereof, such payments to be made ratably and proportionately to the Persons entitled thereto without discrimination or preference, except as specified in the Indenture.

Third: In case the principal of any of the Outstanding Bonds shall have become due by declaration or otherwise and remains unpaid, first to the payment of interest in default in the order of maturity thereof; and then to the payment of principal of all Outstanding Bonds then due and unpaid; in every instance such payment to be made ratably to the Persons entitled thereto without discrimination or preference, except as 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, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of Owners of the Bonds, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default under the Indenture, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the 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 shall be brought in its name as Trustee of an express trust for the equal and ratable benefit of the Owners, subject to the provisions of the Indenture.

Limitation on Owners' Right to Sue. No Owner shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Owners of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees) and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or her or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner 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, shall 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 shall, prior to an Event of Default under the Indenture, and after the curing of all Events of Default thereunder which may have occurred, and the Trustee at all times shall, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default under the Indenture (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

No provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligent action or its own negligent failure to act or its own willful misconduct, except that:

(a) Prior to the occurrence of any Event of Default under the Indenture and after the curing of all Events of Default which may have occurred, the duties and obligations of the Trustee shall at all times be determined solely by the express provisions of the Indenture; the Trustee shall not be liable except for the

performance of such duties and obligations as are specifically set forth in the Indenture; and no covenants or obligations shall be implied into the Indenture which are adverse to the Trustee; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

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

(ii) the Trustee shall have the power to negotiate and enter into intercreditor agreements with respect to the common security for the payment of the Bonds;

(iii) the Trustee shall not be personally liable with respect to any action taken, permitted or omitted by it in good faith in accordance with the direction of the Owners of not less than a majority, or such other percentage as may be required under the Indenture, in aggregate principal amount of the Bonds Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture; and

(iv) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee, conforming to the requirements of the Indenture; but in the case of any such certificate or opinion which by any provision of the Indenture is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the requirements of the Indenture.

(c) The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it thereunder by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and concerning its duties under the Indenture and the Trustee shall not be responsible for any misconduct or negligence on the part of any attorney or agent appointed with due care by it under the Indenture.

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

Compensation and Indemnification of Trustee. The Trustee shall 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 shall 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, bad faith or breach of its obligations under the Loan Agreement or the Indenture. Any amounts payable to the Trustee under the Indenture, if not paid when due, shall be subject to interest at the base rate of the Trustee. If any property, other than cash, shall 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, shall 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 shall 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 shall 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 shall 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 shall 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 shall 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 shall at all times be a Trustee under the Indenture which shall be a corporation or banking association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital 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 shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee shall cease to be eligible, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

Resignation and Removal of Trustee and Appointment of Successor Trustee. (a) The Trustee may at any time resign by giving written notice to the Issuer, the Borrower and by giving Notice by Mail to the Owners of such resignation; provided that, such resignation shall not be effective until a successor Trustee has been appointed under the Indenture. The Trustee shall also mail a copy of any such notice of resignation to the Rating Agencies. Upon receiving such notice of resignation, the Issuer, with the advice of the Borrower, shall promptly appoint a successor Trustee by an instrument in writing. If no successor Trustee shall have been so appointed and have accepted appointment within 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 shall occur:

(i) the Trustee shall cease to be eligible in accordance with the provisions of the Indenture and shall fail to resign after written request therefor by the Issuer, or by any Owner who has been a bona fide Owner for at least six (6) months, or

(ii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Issuer may remove the Trustee, and, with the advice of the Borrower, appoint a successor Trustee by an instrument in writing. Upon any removal of the Trustee, any outstanding fees and expenses of such former Trustee shall be paid in accordance with the 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, at any time, the Issuer shall, remove the Trustee, and, with the advice of the Borrower, appoint a successor Trustee, by an instrument or concurrent instruments in writing signed by the Issuer or such Owners, as the case may be.

(d) Any resignation or removal of the Trustee, and appointment of a successor Trustee shall 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 shall 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 shall become effective and such successor Trustee, without any further act, deed or conveyance, shall 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 shall 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 shall 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 shall, 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 shall accept appointment unless at the time of such acceptance such successor Trustee shall be eligible under the provisions of the Indenture.

Upon acceptance of appointment by a successor Trustee, the successor Trustee shall 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 shall be a party, or any corporation or banking association succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee under the Indenture without the execution or filing of any paper or any further act on the part of any of the parties to the Indenture, anything therein to the contrary notwithstanding, provided that such successor Trustee shall be eligible under the provisions of the Indenture.

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

The Trustee shall furnish to any Owner who may make written request therefor a copy of the most recent audited financial statements of the Borrower that are in the possession of the Trustee. The Trustee shall have no responsibility or liability with respect to the Borrower's failure to provide such statements, and the Trustee shall not be required to compel the Borrower to provide any such statements.

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

Modification of Indenture, Documents

Modification without Consent of Owners. The Issuer and the Trustee, 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 shall form a part of the Indenture; and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, may consent to any Amendment to any 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 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 Document, or in

regard to matters or questions arising under the Indenture or any 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 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 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 Series 2010A Bonds or the status of the Series 2010B Bonds as Direct Payment Build America 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 Series 2010A Bonds or the status of the Series 2010B Bonds as Direct Payment Build America 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 shall cause notice of the proposed execution of the Supplemental Indenture or Amendment to be given by mail to the Borrower and each Rating Agency. A copy of the proposed Supplemental Indenture or Amendment shall accompany such notice. Not less than one week after the date of the first mailing of such notice, the Issuer and/or the Trustee may execute and deliver such Supplemental Indenture or Amendment, but only after there shall have been delivered to the Trustee and the Issuer an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with the applicable terms of the Indenture; (iii) will, upon the execution and delivery thereof be a valid and binding agreement of the Issuer; (iv) will not adversely affect the Tax-Exempt status of interest on the Series 2010A Bonds or the status of the Series 2010B Bonds as Direct Payment Build America Bonds under the Code; and (v) 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, (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 Document and any other matters for which its consent is required pursuant to the Indenture; provided, however, that no such Supplemental Indenture or Amendment will have the effect of extending the time for payment or reducing any amount due and payable by the Borrower pursuant to the Loan Agreement without the consent of the Owners of all Bonds then Outstanding; and that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Owners whose consent is required for the execution of such Supplemental Indentures or

Amendments, or permit the creation of any lien on the Revenues and the other assets pledged as security for Bonds under the Indenture prior to or on a parity with the lien of the Indenture, except as permitted therein, or permit the creation of any preference of any Owner over any other Owner, except as permitted therein, or deprive the Owners of the Bonds of the lien created by the Indenture upon the Revenues and the other assets pledged to the payment of the Bonds under the Indenture, without the consent of the Owners of all Bonds then Outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Owner of any Supplemental Indenture or Amendment permitted by the 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; (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 Series 2010A Bonds or the status of the Series 2010B Bonds as Direct Payment Build America Bonds under the Code; and (v) will not materially adversely affect the interests of the Owners of the Bonds; and (3) evidence of the consent of the Owners as aforesaid, the Trustee shall join with the Issuer in the execution of such Supplemental Indenture or shall consent to such Amendment; provided, however, that (i) the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its sole discretion, but shall not be obligated to, enter into such Supplemental Indenture; and (ii) the Trustee shall not enter into such Supplemental Indenture or consent to any Amendment of any Document without first obtaining the Borrower's written consent thereto.

Defeasance

Discharge of Indenture. If all Bonds shall be paid and discharged in any one or more of the following ways:

- (a) by the payment of the principal of and interest on all Bonds as and when the same become due and payable; or
- (b) by providing for the payment of the principal of and interest on all Bonds as provided in the 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 shall be paid and discharged, then thereupon the Indenture shall be satisfied and discharged and shall cease, terminate and become null and void, and thereupon the Trustee shall, upon Written Request of the Issuer, and upon receipt by the Trustee and the Issuer of an Opinion of Bond Counsel to the effect that all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging the satisfaction and discharge of the Indenture. The Trustee shall 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 shall be deemed to be paid within the meaning of the Indenture when payment of the principal of such Bond or a portion thereof plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption or by declaration as provided in the Indenture) shall have been provided for by (i) irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment money and/or nonprepayable, noncallable United States Government Securities; and (ii) if such Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided or provision satisfactory to the Trustee shall have been made for giving such notice.

(b) In the event of the provision of the payment of less than the full principal amount of a Bond in accordance with subsection (a) above, the principal amount of the Bond as to which such payment is not provided for shall be in an Authorized Denomination and, unless that portion of the Bond as to which payment is provided for

in accordance with 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, shall be deemed to be paid under the Indenture, shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such money and/or United States Government Securities deposited with the Trustee for such purpose, and all liability of the Issuer and the Borrower in respect of such Bond, or the applicable portion thereof, shall cease, terminate and be completely discharged, except that the Issuer and the Borrower shall remain liable for the payment of the principal of and interest on such Bond, or the applicable portion thereof, but only from, and the Owners shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money and/or United States Government Securities deposited with the Trustee as aforesaid for their payment, subject, however, to certain provisions of the Indenture.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or United States Government Securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or nonprepayable, noncallable United States Government Securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) An amount of money equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount of money to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) nonprepayable, noncallable United States Government Securities, the principal of and the interest on which when due will provide money at the times and in the amounts sufficient, together with the other moneys held by the Trustee for such purpose (as evidenced by an Accountant's Report) to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Issuer) to apply such money and the payments on such United States Government Securities to the payment of such principal or redemption price and interest with respect to such Bonds. The Trustee shall not be responsible for verifying the sufficiency of money and United States Government Securities deposited with the Trustee to provide for the payment of the principal of and interest on Bonds pursuant to the Indenture but may conclusively rely for all purposes of the Indenture on an Accountant's Report as to such sufficiency.

Continuing Disclosure

Pursuant to the Loan Agreement, the Borrower shall have no continuing disclosure requirements for the Bonds as promulgated under S.E.C. Rule 15c2-12. The Issuer shall have no liability to the Owners of the Bonds or any other Person with respect to such disclosure matters. The Regents shall, pursuant to the CFIA Ground Lease, 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, shall 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, shall) 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 Section 26.24 of the CFIA Ground Lease.

THE LOAN AGREEMENT

Definitions

Definition of Terms. Unless the context otherwise requires, the terms used in the Loan Agreement shall 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 shall, 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 shall 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 shall, 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 enter into, and will instruct the Trustee to consent to, such amendment or supplement as shall 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 Series 2010A Bonds or the status of the Series 2010B Bonds as Direct Payment Build America Bonds under the Code.

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

Operating Fund. The Borrower shall 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 shall deposit a portion of the proceeds of the Bonds into the Proceeds Subaccount within the Operating Fund pursuant to the Indenture, and the Trustee shall 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) shall 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 shall have been fully paid or provision for the payment thereof shall 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 shall 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, shall 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 shall 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 shall forthwith pay such deficiency as a Loan Payment under the Loan Agreement. Any payments to be made by the Borrower shall 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 shall, 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 shall 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 shall 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 expenses in connection with the loan to the Borrower under the Loan Agreement, the Bonds, the Indenture, the Tax Agreement or any other documents contemplated thereby, including without limitation reasonable expenses incurred by the Issuer as a "taxpayer" before the Internal Revenue Service in any audit or investigation of the Bonds and expenses incurred by the Attorney General of the State or any attorneys (including attorneys who are employees of the Issuer) representing the Issuer in connection with any litigation, investigation, audit or matter that may at any time be instituted or any other questions or matter involving such loan or the Bonds, the Indenture, the Tax Agreement or any other documents contemplated thereby, and reasonable expenses incurred by the Issuer in connection with the

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's annual fee of \$500, payable on September 1 of each year or portion thereof in which Bonds are Outstanding, commencing September 1, 2010;

(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 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 expenses of such accountants, consultants, attorneys and other experts 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.

The Borrower agrees that the payments of fees and expenses as provided in the Loan Agreement shall 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 shall continue as obligations of the Borrower until such amounts shall 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 shall be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Issuer or any other Person, and the Borrower shall pay absolutely net of the payments to be made on account of the loan as prescribed in the Loan Agreement and all other payments required thereunder, free of any deductions and without abatement, diminution or setoff. Until such time as the principal of and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture 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 shall 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 shall receive (A) an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not in and of itself adversely affect the Tax-Exempt status of interest on the Series 2010A Bonds or the status of the Series 2010B Bonds as Direct Payment Build America 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 shall continue in full force and effect and no further merger, consolidation, sale or transfer shall be effected except in accordance with these provisions.

(c) Another Person may also agree to become a co-obligor and jointly and severally liable with the Borrower (without the necessity of merger, consolidation or transfer of assets) under the Loan Agreement if the foregoing provisions are satisfied. In such event, references in the Loan Agreement to indebtedness of the Borrower shall apply to the combined indebtedness of the Borrower and such other Person, references to the financial condition or results of operation of the Borrower shall apply to the combined financial condition and results of operation of the Borrower and such other Person, and the Borrower and such other Person shall be considered to be the Borrower for all purposes of the Loan Agreement.

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, shall be obligated to pay or cause to be paid only such installments as are required to be paid during the term of the Loan Agreement. The Borrower may, 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 Series 2010A Bonds shall be and remain Tax-Exempt, and to that end the covenants and agreements of the Issuer and the Borrower below and the Series 2010A Bonds Tax Agreement are for the benefit of the Trustee and each and every Person who at any time will be a Owner of the Series 2010A Bonds.

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 Series 2010A Bonds or other funds, or take or omit to take any action that will cause any Series 2010A Bond to be an "arbitrage Series 2010A 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 Series 2010A Bond to be an "arbitrage Series 2010A Bond" within the meaning of Section 148(a) of the Code. To such ends with respect to the Series 2010A Bonds, the Issuer and the Borrower will comply with all requirements of Section 148 of the Code to the extent applicable to the Series 2010A Bonds. In the event that at any time the Issuer or the Borrower is of the opinion that it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Loan Agreement or the Indenture, the Issuer or the Borrower shall so instruct the Trustee in writing and the Trustee shall comply with such written instructions.

Without limiting the generality of the foregoing, the Borrower and the Issuer agree that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any applicable Treasury Regulations. This covenant shall survive payment in full of the Series 2010A Bonds or provision for the payment of the Series 2010A Bonds in accordance with the Indenture. The Borrower specifically covenants to hire a rebate consultant acceptable to the Issuer to calculate and to pay or cause to be paid for and on behalf of the Issuer to the United States of America at the times and in the amounts determined under the Indenture the Rebate Requirement as described in the Series 2010A Bonds Tax Agreement, and under no circumstance shall payment of the Rebate Requirement be the obligation of the Issuer.

The Issuer certifies, represents and agrees that it has not taken, and will not take, any action which will cause interest paid on the Series 2010A Bonds to become includable in gross income of the Owners of the Series 2010A 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 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 Series 2010A Bonds to become includable in gross income of the Owners of the Series 2010A Bonds for federal income tax purposes pursuant to such provisions of the Code. The Borrower agrees to perform all duties imposed on it by the Indenture, by the Loan Agreement and by the Series 2010A Bonds Tax Agreement. Insofar as the Indenture and the Series 2010A Bonds Tax Agreement impose duties and responsibilities on the Borrower, they are specifically incorporated in the Loan Agreement by reference.

Notwithstanding any provision of the Loan Agreement and the Indenture relating to tax covenants or any provision of the Series 2010A Bonds Tax Agreement, if the Borrower shall 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 Series 2010A Bonds 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 Series 2010A 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 Series 2010A Bonds Tax Agreement; and the covenants contained therein shall be deemed to be modified to that extent.

(b) The Series 2010B Bonds are issued as taxable bonds. The Borrower will not make any use of the proceeds of the Series 2010B Bonds or any other funds of Borrower which will cause any Series 2010B Bond to be an “arbitrage bond” subject to federal income taxation by reason of Section 148 of the Code, or a “federally-guaranteed obligation” under Section 149(b) of the Code, or a “private activity bond” as described in Section 141 of the Code. To that end, the Borrower, with respect to such proceeds and such other funds will comply with all requirements of such sections of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

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 shall 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, shall 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 Series 2010B Bonds Tax Agreement.

Continuing Disclosure. The Borrower is not an obligated person within the meaning of the continuing disclosure requirements for the Bonds as promulgated under S.E.C. Rule 15c2-12, and therefore is not 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 such 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 a continuing disclosure undertaking executed and delivered by The Regents.

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 shall 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 shall not purchase any obligations of the Issuer, pursuant to an arrangement, formal or informal, in an amount related to the amount of the loans made to the Borrower under the Loan Agreement. Nothing under this caption shall prohibit the Borrower from receiving Bonds by gift, bequest or devise or from purchasing Bonds in the secondary market other than pursuant to an arrangement related to the loan made 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 shall 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 shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Borrower shall nevertheless be obligated to continue to pay the amounts specified 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 shall satisfy the Borrower's obligation to continue payments under the Loan Agreement.

Damage to or Condemnation of Project. In the event any portion of the Project is (i) taken from the Borrower by eminent domain, or (ii) damaged or destroyed, the Borrower, upon the written approval of The Regents, may elect to transfer to the Trustee, and the Trustee shall apply, the Net Proceeds of any condemnation award, or insurance received as a result of such taking or casualty, to the prepayment of Loan Payments and to the redemption of Bonds as provided in the Indenture.

Events of Default and Remedies

Events of Default. Any one of the following which occurs shall constitute an Event of Default under the Loan Agreement:

(a) failure by the Borrower to pay or cause to be paid any amounts required to be paid under the Loan Agreement 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 shall specify such failure and request that it be remedied; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time period if corrective action is instituted within such period and diligently pursued until the default is corrected; 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 shall have occurred and shall 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 shall have been declared due and payable pursuant to the Indenture relating to default but such declaration has been rescinded, no amount shall 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 shall have proceeded to enforce its rights under the Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Issuer, then, and in every such case, the Borrower, the Trustee and the Issuer shall be restored respectively to their several positions and rights under the Loan Agreement, and all rights, remedies and powers of the Borrower, the Trustee and the Issuer shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Issuer, the Trustee or the Borrower shall not be disturbed by reason of this provision).

Prepayment

Optional Prepayment Loan Payments. So long as no Event of Default shall have occurred and be continuing under the Loan Agreement, the Borrower shall have the option to prepay all or any portion of the Loan Payments by paying the applicable amount set forth in the Loan Agreement relating to prepayment. By virtue of the assignment under the Loan Agreement to the Trustee of certain rights of the Issuer, the Borrower shall pay any prepayment of Loan Payments directly to the Trustee. Such prepayments of Loan Payments shall 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 shall not be terminated until no Bonds remain Outstanding under the Indenture and all amounts payable by the Borrower under the Loan Agreement have been paid.

Amount of Prepayment. (a) In the case of a prepayment of the entire amount of the Loan Payments remaining due under the Loan Agreement, the amount to be paid shall be a sum sufficient, together with other funds and the principal of and interest on any United States Government Securities then on deposit with the Trustee and available for such purpose to provide for the payment of all then Outstanding Bonds, including any redemption premium thereon, and the satisfaction and discharge of the Indenture, in accordance 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 shall 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 Bank; Expenses; Indemnification

Nonliability of Issuer. The Issuer shall not be obligated to pay the principal of, premium, if any, 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 shall be pledged to the payment of the principal of, premium, if any or interest on the Bonds. 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 whatever therefor or to make any appropriation for their payment. The Issuer has no taxing power. Neither the members of the Issuer nor any official thereof nor any person executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

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 shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee and subject to the Loan Agreement, the Borrower shall 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.

Indemnification. The Borrower releases the Issuer and the Trustee from, and covenants and agrees that neither the Issuer nor the Trustee, shall be liable for, and covenants and agrees, to the extent permitted by law, to indemnify and hold harmless the Issuer, the Trustee and their directors, officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever (collectively, "Claims") arising out of, resulting from or in any way connected with: (1) the conditions, occupancy, use, possession, conduct or management of the Project, or work done in or about the Project, or from the planning, design, installation or construction (or reconstruction) of the Project or any part thereof; (2) the offering, issuance, sale or any resale of the Bonds or any certifications, covenants or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds, the Loan Agreement and the Tax Agreements; (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; (4) the Issuer's acceptance of its responsibilities under the Loan Agreement and under the Tax Agreements 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 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) the cleanup of any hazardous materials or toxic wastes from the Project, or the authorization of payment of costs thereof, (7) any amount owed or alleged to be owed to a taxing agency or Owner either (i) pursuant to the Tax Agreements or (ii) because of a determination or allegation that the Bonds are not Tax-Exempt; (8) any accident, injury or damage whatsoever to any person occurring in or about the Project; (9) any breach or default by the Borrower of or in any of its obligations under the Loan Agreement; or (10) any act or omission of the Borrower or any of its agents, contractors, servants, employees or licensees; provided that the foregoing release and indemnity shall not apply to any Claims (collectively, "Non-Released Claims") resulting from negligence or willful misconduct (including without limitation breach of the Loan Agreement and the Indenture) on the part of the party seeking such release or indemnity. In case any action or proceeding is brought against the Issuer or the Trustee or any such director, officer, employee or agent by reason of any such claim, the Borrower upon notice from the affected party shall resist or defend such action or proceeding. The indemnity required by the Loan Agreement shall be only to the extent that any loss sustained by the Issuer or the Trustee exceeds the net proceeds the Issuer or 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 officers, employees,

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 relate to Non-Released Claims or such cost, attorneys' fees, liabilities or expenses are paid by any carried insurance. The provisions of the Loan Agreement relating to indemnification shall survive the discharge of the Indenture, the Loan Agreement, the Tax Agreements, 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 shall 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; provided, that so long as no default in payment of Base Rent under the Lease shall have occurred or be continuing, the Landlord shall 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 shall be applied and all such rights so assigned shall 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 shall confer no rights and shall impose no obligations upon the Trustee beyond those expressly provided in the Indenture.

California Law. The Assignment Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of California.

CONTINUING DISCLOSURE AGREEMENT

Purpose of the Continuing Disclosure Agreement

The Continuing Disclosure Agreement is executed and delivered by The Regents 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 shall have the following meanings:

Annual Report shall mean any Annual Report provided by The Regents pursuant to, and as described in, Sections 3 and 4 of the Continuing Disclosure Agreement.

Disclosure Representative shall mean the Vice President-Finance of the University of California or her designee, or such other officer or employee as The Regents shall designate in writing to the Trustee from time to time.

Dissemination Agent shall mean the Trustee, 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 shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Repository shall 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 shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

State shall mean the State of California.

Provision of Annual Reports.

(A) The Regents shall, or shall cause the Dissemination Agent to, not later than seven (7) months after the end of the Fiscal Year of The Regents (presently June 30), commencing with the Annual Report for the Fiscal Year ending June 30, 2010, 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 shall give notice of such change in the same manner as for a Listed Event under paragraph (F) of the subheading “Reporting of Significant Event” below. If The Regents provides the Annual Report to the Repository, it shall notify the Dissemination Agent that it has done so.

(B) Not later than fifteen (15) Business Days prior to the date specified in (A) above for providing the Annual Report to the Repository, The Regents shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact The Regents and the Dissemination Agent to determine if The Regents is in compliance with the first sentence of this paragraph.

(C) If the Trustee is unable to verify that an Annual Report has been provided to the Repository by the date required in (A) above, the Trustee shall 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 shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository; and

(ii) file a report with The Regents and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to the Continuing Disclosure Agreement, stating the date it was provided to the Repository.

Content of Annual Reports

The Annual Report shall 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 shall contain unaudited financial statements in a format that complies with current Generally Accepted Accounting Principles, relating to the Bonds, and the audited financial statements shall 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 Municipal Securities Rulemaking Board. The Regents shall clearly identify each such other document so included by reference.

Reporting of Significant Events

(A) The Regents shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Modifications to rights of Owners;
4. Optional, contingent or unscheduled Bond calls;
5. Defeasances;
6. Rating changes;
7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. Unscheduled draws on debt service reserves reflecting financial difficulties;
9. Unscheduled draws on credit enhancements reflecting financial difficulties;
10. Substitution of credit or liquidity providers or failure by such credit or liquidity providers to perform; and
11. Release, substitution or sale of property securing repayment of the Bonds.

(B) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that The Regents promptly notify the Trustee in writing whether or not to report the event pursuant to the following paragraph (F).

(C) Whenever The Regents obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to paragraph (B) of this section or otherwise, The Regents shall as soon as possible determine if such event would be material under applicable federal securities laws.

(D) If The Regents has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, The Regents shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to the following paragraph (F).

(E) If in response to a request under paragraph (B) of this section, The Regents determines that the Listed Event would not be material under applicable federal securities laws, The Regents shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (F).

(F) If the Trustee has been instructed by The Regents to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Repository in electronic format, accompanied by such identifying information as is prescribed by the Repository, with a copy to The Regents. Notwithstanding the foregoing, notice of Listed Events described in paragraphs (A)(4) and (A)(5) of this section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

Termination of Reporting Obligation

The Regents' obligations under the Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, The Regents shall give notice of such termination in the same manner as for a Listed Event under paragraph (F) of the previous section.

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 shall 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 shall be the Dissemination Agent.

Amendment; Waiver

Notwithstanding any other provision of the Continuing Disclosure Agreement, The Regents and the Trustee may amend the Continuing Disclosure Agreement (and the Trustee shall 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 the Trustee or 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 shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by The Regents. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under paragraph (F) 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 shall 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 shall 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 Trustee 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, shall), 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 Trustee, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture, the Loan Agreement or the CFIA Ground Lease and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of The Regents or the Trustee to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

Duties, Immunities and Liabilities of Trustee and Dissemination Agent

Article VIII of the Indenture is made applicable to the Continuing Disclosure Agreement as if the Continuing Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in 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 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Beneficiaries

The Continuing Disclosure Agreement shall inure solely to the benefit of The Regents, the Trustee, the Dissemination Agent, the Participating Underwriters and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

GROUND LEASE

DEFINITIONS

The following terms have the indicated definitions in the Ground Lease.

“Adjacent Site” means that certain real property owned by Landlord and adjacent to the Site, as described more completely in the License Agreement.

“Assessments” is as defined under the heading of “Assessment Obligations” below.

“Assigned Agreements” means the Construction Contracts.

“Base Rent Assignment Agreement” means that certain Base Rent Assignment Agreement by and among the Landlord, the Tenant, the Developer 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 Tenant in connection with the issuance and delivery of the Bonds and the proceeds thereof.

“Bond Trustee” or “Trustee” means Bank of New York Mellon Trust Company, NA as Trustee under the Indenture, and its successors and permitted assigns in such capacity.

“Bonds” means collectively the Series 2010A Bonds and the Series 2010B Bonds.

“Campus” means the UCSF Mission Bay Campus.

“Commencement Date” means the Effective Date.

“Completion” is defined in the Development Agreement.

“Construction Contracts” is defined in the Development Agreement.

“Developer” means Edgemoor/McCarthy Cook Partners LLC, a California limited liability company.

“Development Agreement” means that certain Lease Disposition and Development Agreement, by and among Landlord, Tenant and Developer.

“Disbursement Agreement” means that certain Disbursement Agreement between Trustee, Developer and Tenant dated as of the Effective Date and related to the disbursement of a portion of the proceeds of the Bonds from Tenant to Developer.

“Effective Date” is March 24, 2010.

“Event of Default” means each of the events specified under the heading “Events of Default and Remedies” below.

“Ground Lease” means that certain Ground Lease Agreement, by and between Tenant and Landlord.

“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 the California Infrastructure and Economic Development Bank, and its successors and assigns under the Indenture.

“Landlord” or **“University”** means The Regents of the University of California and its successors and assigns.

“License Agreement” means that certain License Agreement between Landlord, as licensor, and the Developer, as licensee, with respect to the Adjacent Site, such agreement in the form attached as an exhibit to the Developer Ground Lease.

“Loan Agreement” means the Loan Agreement between the Issuer and Tenant, as the same may be amended and/or supplemented from time to time in accordance with the provisions of the Indenture.

“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.

“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 a neurosciences clinical and research facility, as more particularly described in the Development Agreement.

“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 or charge upon the Premises or any part or parts thereof, or upon Tenant’s Interest, including, without limitation, 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.

“Series 2010A Bonds” means the \$19,670,000 aggregate principal amount of the California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010A.

“Series 2010B Bonds” means the \$188,000,000 aggregate principal amount of the California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010B (Taxable-Build America Bonds).

“Site” means that certain real property located in the City and County of San Francisco, State of California described in Exhibit A attached to the Ground Lease.

“Space Lease” means that certain Lease for the Premises by and between Developer, as Landlord, and the University, as Tenant, dated as the Effective Date.

“State” means the State of California.

“Tenant” means Campus Facilities Improvement Association.

“Tenant’s Interest” means Tenant’s entire interest in (i) the Site, (ii) the Project, and (iii) the Ground Lease.

“Term” means the period set forth under the heading “Term” below.

“Termination Date” means the date on which the Term hereof ends by termination or expiration of the Ground Lease, as described under the heading “Term” below.

“Transaction Documents” means, collectively, the Space Lease, Developer Ground Lease, Development Agreement, the Ground Lease, the Disbursement Agreement, the Bond Documents, and the ancillary agreements entered into by and between Landlord, Tenant and Developer in connection therewith.

TERM OF LEASE

Lease. Landlord leases to Tenant, and Tenant leases from Landlord, the Site.

Term. The term of the 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 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 Ground Lease, except for provisional ground rent, as follows: provisional ground rent will be paid by Tenant to Landlord, but only if, as and to the extent that the Trustee receives payments from the Secretary of the U.S. Treasury pursuant to Sections 54AA(g)(1) and 6431 of the Code to the Issuer or its designee (which payments are expected to be in an amount equal to 35% of the interest payable on the Series 2010B Bonds on each interest payment date for such Bonds) (the “Direct BABs Payments”). The Trustee will transfer any such Direct BABs Payments directly to Landlord on behalf of Tenant in the time, form and manner set forth in the Indenture. Failure of the Trustee to pay the provisional ground rent provided in the Ground Lease will not constitute an event of default under the Ground Lease, although the Landlord may seek specific performance of the payment of provisional ground rent but only to the extent payable under the 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. Landlord and Tenant agree that nothing in the Ground Lease will, under any circumstances, be construed as obligating Tenant to pursue its remedies under the heading of “Operation of Project” under the Developer Ground Lease with regard to an Operating Deficiency (as defined in the Developer Ground Lease); provided Landlord may, with written notice to Tenant, request that Tenant do so, and if Landlord makes such a request, then Tenant may, but shall not be required to, pursue such remedies, subject to Landlord’s satisfaction of all reasonable conditions Tenant may impose on such performance, including without limitation the Landlord agreeing to pay for any related costs of arbitration, if applicable.

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 pursuant to the Disbursement Agreement. Any other financing which would encumber Tenant's Interest in the 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 the documents evidencing any such financing encumber the interest of Landlord in the Ground Lease or 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 Ground Lease is exclusively in furtherance of the educational and public purposes of Tenant and the University; therefore, the parties intend and expect that the leasehold estate of Tenant created by the 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 Developer 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 Ground Lease is intended to change the degree to which the interest or estate of Tenant created by the Ground Lease is subject to Property Taxes; however, to the extent any Property Taxes are assessed, Tenant and Landlord will have the responsibilities and rights set forth in the Ground Lease.

Tax Obligations. 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 Ground Lease, whether 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, and 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, Landlord shall pay 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.

Right to Contest. Landlord will have the right, at its own expense, to contest the amount 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 Ground Lease, the Developer Ground Lease, the Space Lease, the use of the Premises, or any repair, replacement, demolition, renovation, construction, restoration, or excavation 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 if the Landlord will be using more than fifty percent (50%) of the assignable square feet of the project in which the construction will be performed.

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 without limitation, if requested by Landlord, and to the extent required, 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 anyone else, including, but not limited to, the rights of the Developer, the Issuer, or any mortgagee, architect, independent contractor, assignee, sublessee, subcontractor, prime or general contractor, mechanic, laborer, materialmen, or other lien or claim holder, will always be and remain subordinate, inferior, and junior to Landlord's title, interest, and estate in the Site. Except as otherwise expressly permitted under the Ground Lease, Tenant will not create or permit to be created or to remain, and shall discharge, any lien, encumbrance, or charge 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 (a "Lien") that might, or does, constitute a lien, encumbrance, or charge upon the Site, 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 in the Site or any part thereof, or the income therefrom. Nothing in the 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. 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 (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 as assignee of Tenant's interests under the Developer Ground Lease, at no additional cost to Landlord, and if requested by Landlord, Tenant will execute such further instruments as may be reasonably required in connection therewith.

EASEMENTS

Landlord reserves to itself the right to grant to others in the future nonexclusive utility easements 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, or security interest granted or purported to be granted under the Ground Lease or under the Developer Ground Lease, and/or to enable Landlord to exercise and enforce its rights and remedies with respect to any Assigned Agreements.

Financing Statements. Tenant authorizes Landlord to file one or more financing and/or continuation statements, and amendments thereto, relating to all or any part of the Assigned Agreements without the signature of Tenant where permitted by Applicable Law.

Landlord May Perform. If Developer fails to perform any covenant or agreement contained in 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 assigns to Landlord any rights it has pursuant to the Developer Ground Lease in connection therewith. Tenant hereby irrevocably appoints Landlord as Tenant's attorney-in-fact, with full authority in the place and stead of Tenant and in the name of Tenant or otherwise, if a default occurs by Developer under 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 advisable to accomplish the purposes of the Ground Lease, the Developer Ground Lease, and the Development Agreement, including, without limitation:

(1) To obtain any insurance required pursuant to the Developer Ground Lease and/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 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 Developer Ground Lease and any Assigned Agreement or the rights of Landlord and Tenant with respect to any of the Assigned Agreements.

No Duty of Landlord. The powers conferred on Landlord under the Ground Lease are solely to protect its interest in the Developer Ground Lease and the Assigned Agreements and shall not impose any duty upon it to exercise any such powers. Landlord will have no duty to take any necessary steps to preserve rights against prior parties or any other rights pertaining to the Developer Ground Lease or any Assigned Agreements.

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 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 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 Ground Lease, the Developer Ground Lease, the Space Lease and/or the Project. 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 Ground Lease.

MAINTENANCE OF PROPERTY

Pursuant to the Developer Ground Lease, Tenant will cause the Developer to at all times during the Term 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 same, and Tenant hereby assigns to Landlord its rights under the Developer Ground Lease in connection therewith. Landlord agrees, upon the full execution and delivery of the Developer Ground Lease, to enter into the License Agreement so that Developer may access the Adjacent Site in order to perform certain of its repair and maintenance obligations under the Developer Ground Lease and Space Lease.

INDEMNIFICATION BY LANDLORD

Except to the extent caused by the intentional wrongful acts or gross negligence of Tenant or any of the Indemnitees (defined below), Landlord releases and agrees to indemnify, defend and hold Tenant and all of its officers, employees, directors, agents, and consultants (hereinafter collectively referred to as the "Indemnitees") of and from any and all claims, demands, liabilities, losses, costs, or expenses for any loss including but not limited to bodily injury (including death), personal injury, property damage, expenses, taxes and attorneys' fees (collectively "Claims"), caused by, growing 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 Ground Lease.

Landlord acknowledges to Tenant that Landlord's obligation to pay to the Trustee the amounts specified as Base Rent as set forth in 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 Series 2010 Project is complete or available for use for any reason including failure of the Developer to complete the Series 2010 Project, the alleged or actual invalidity of the Ground Lease, the Space Lease or any other document or agreement, or by virtue of any other reason or circumstance whatsoever.

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 Series 2010 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 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 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 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 Ground Lease, but will require that the Developer maintain the insurance required pursuant to the 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, the elements, casualty, accident, war, riot, public disorder, acts authorized or unauthorized by the government or any other cause or happening, the Developer Ground Lease and Space Lease 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. The provisions of the Ground Lease constitute an express agreement between Landlord and Tenant with respect to any casualty to all or any part of the Project, and any statute or regulation, including, without limitation, 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 Ground Lease or any damage or destruction to all or any part of the Project.

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 thereof 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 Section 1265.130 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 the applicable period and diligently pursued until the failure is corrected.
- (b) Tenant is adjudicated a bankrupt.
- (c) 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.
- (d) Tenant voluntarily takes advantage of any debtor relief proceedings under any present or future law 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.
- (e) Tenant makes a general assignment for benefit of creditors.
- (f) 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.
- (g) Tenant is in default under the Development Agreement beyond applicable notice and cure periods.
- (h) Tenant is in default under the Developer Ground Lease beyond applicable notice and cure periods.
- (i) Any other event that is expressly stated to be an Event of Default elsewhere in the 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, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever:

- (a) Cause Tenant to assign its interest in 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.

No Waiver. No waiver by Landlord of any violation or breach by Tenant of any of the terms, provisions and covenants contained in the 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.. 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 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 Early Termination; End of Term. The Ground Lease shall not be terminated for any reason whatsoever while the Space Lease remains in full force and effect. Upon the expiration or termination of the Space Lease, for any cause whatsoever, the Term under the Ground Lease shall automatically end, and all rights and interests of Tenant, and 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 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, Developer, or to anyone whomsoever, and free and discharged from all and every lien, encumbrance, claim and charge of any character created or attempted to be created by 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 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 or any matter which must be submitted to Landlord which may become effective if not denied by Landlord, as required under the Ground Lease, shall be submitted to Landlord in accordance with the 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, without limitation, the insurers and lenders 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 Ground Lease by operation of law.

MISCELLANEOUS

Preservation of Tax Status of Bonds. Landlord and Tenant each agree to not take any action with respect to the Project that would 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 direct payment Build America Bonds, or would

otherwise result in a breach of any representations, 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” means 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, statutes, regulations, ordinances, resolutions and orders of any Governmental Authority.

“Assessments” is as defined under the heading of “Assessment Obligations” below.

“Assigned Agreements” means the Construction Contracts.

“Assignment of Construction Contracts” means the Collateral Assignment of Construction Contracts in the form of Attachment 5.24 to the Development Agreement executed by Tenant in favor of the Landlord and the University.

“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 thereafter the first business day of each month of the Term until the Bonds are paid in full or otherwise are no longer outstanding in accordance with the Indenture, provided that if the Space Lease Base Rent is not paid or payable on such first business day of each month, then the Base Ground Rent Payment Date shall be the date upon which the Space Lease Base Rent is actually paid.

“Base Rent Assignment Agreement” means 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 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 under the Indenture, and its successors and permitted assigns in such capacity.

“Bonds” means collectively the Series 2010A Bonds and the Series 2010B Bonds.

“Bonds Commencement Date” means the date upon which the Bonds are issued in exchange for payment.

“CFIA Ground Lease” means that certain Ground Lease Agreement, by and between the Landlord and University.

“Commencement Date” means the Effective Date.

“Completion” is defined in the Development Agreement.

“Construction Contracts” is defined in the Development Agreement.

“Current Dollars” means a dollar amount calculated by multiplying a dollar amount specified in the Sub-Ground 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.

“Developer” means Tenant, in its capacity as “Developer” under the Development Agreement, and its successors and permitted assigns.

“Development Agreement” is defined in the Recitals above.

“Sub-Ground Lease” is that certain Ground Lease Agreement, by and between Landlord and Tenant.

“Disbursement Agreement” means that certain Disbursement Agreement among the Landlord, Tenant and Trustee dated as of the Effective Date and related to the disbursement of a portion of the proceeds of the Bonds from Landlord to Tenant.

“Effective Date” is March 24, 2010.

“Event of Default” means each of the events specified under the heading “Events of Default 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, other than Landlord.

“Ground Rent” means, collectively, Base Ground Rent plus any Additional Ground Rent.

“Ground Rent Commencement Date” means the first date on which Ground Rent is due pursuant to the Sub-Ground Lease.

“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 its successors 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 Project.

“Leased Land” means that certain real property located in the City and County of San Francisco, State of California described in Exhibit A attached to the Sub-Ground Lease.

“License Agreement” means that certain License Agreement by and between the Tenant and the University which is attached to the Sub-Ground Lease as Exhibit C.

“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.

“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.

“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 Leased Land.

“Project” is means the neurosciences clinical and research facility, as more particularly described in the Development Agreement.

“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 or charge upon the Premises or any part or parts thereof, or upon Tenant’s Interest, including, without limitation, 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.

“Series 2010A Bonds” means the \$19,670,000 aggregate principal amount of the California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010A.

“Series 2010B Bonds” means the \$188,000,000 aggregate principal amount of the California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010B (Taxable-Build America Bonds).

“Space Lease” means that certain Lease for the Premises by and between Tenant, as Landlord, and the University, as Tenant, which shall commence after Completion of the Project in accordance with the Development Agreement.

“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.

“Tenant” means Edgemoor/McCarthy Cook Partners LLC, a California limited liability company.

“Tenant’s Interest” means Tenant’s entire interest in (i) the Leased Land, (ii) the Project, and (iii) the Sub-Ground Lease.

“Term” means the period set forth under the heading “Term” below.

“Termination Date” means the date on which the Term hereof ends by termination or expiration of the Ground Lease, as described in the Sub-Ground Lease.

“Transaction Documents” is defined in the Development Agreement.

“University” means The Regents of the University of California and its successors and assigns.

“Work” means the construction to be performed by Tenant, as developer, 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 (“Term”) will commence on the Effective 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 CFIA Ground Lease, or (c) acquire the uncompleted Project, 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 construct the Project 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 therefore.

USES AND RESTRICTIONS

Construction Period. Tenant is authorized from the Effective Date until the date of Completion to construct the Project in accordance with the Development Agreement.

Balance of Term. Thereafter the Premises will be occupied by the University under the Space Lease pursuant to the terms of the Space Lease.

FINANCING OF PROJECT

A portion of the Bond proceeds will be applied towards the design, acquisition, construction, furnishing, equipping, and operation of the Project, 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 Project on the terms set forth therein. Landlord agrees not to materially amend or modify the terms of the Bond Documents without Tenant's prior consent, which will not be unreasonably withheld, conditioned or delayed. All financing obtained by Tenant which encumbers Tenant's Interest in the Sub-Ground Lease, or any amendment, renewal, refinancing, or refunding of any such financing, during the Term of the Sub-Ground Lease shall be subject to the prior 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 CFIA Ground Lease or its fee interest in the Leased Land.

TAXES AND ASSESSMENTS

Taxes and Assessments. Landlord and Tenant have determined that the use of the Premises pursuant to the Sub-Ground Lease is exclusively in furtherance of the research, educational and public purposes of Landlord and the University; therefore, the parties intend and expect that the leasehold estate of Tenant created by the Sub-Ground Lease and the Project will be eligible for exemption, under California law, from ad valorem property taxes and assessments ("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 and Tenant will each diligently pursue and attempt to maintain exemption of the Premises from Property Taxes in pursuing and maintaining such exemption. 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. Tenant's obligation to pay Property Taxes includes, without limitation, 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.

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 agencies, 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 to the Campus or for any hazardous purpose. In the event, at any time during the Term of the Sub-Ground Lease, or thereafter, as the result of the Tenant's acts or omissions, 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, or on account of any other reason with respect to the Premises, the entire expense thereof, regardless of when the same shall be incurred or become due, will be paid by the Tenant 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. Without limiting the foregoing, 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 if the University will be using more than fifty percent (50%) of the assignable square feet of the project in which the construction will be performed.

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 anyone else, including, but not limited to, the rights of the Issuer, or any mortgagee, architect, independent contractor, assignee, sublessee, subcontractor, prime or general contractor, mechanic, laborer, materialmen, or other lien or claim holder, shall always be and remain subordinate, inferior, and junior to Landlord's and University's leasehold title, interest, and estate in the Leased Land. Except as otherwise expressly permitted under the Sub-Ground Lease, Tenant will not create or permit to be created or to remain, and shall discharge, any lien, encumbrance, or charge 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 (a “Lien”) that might, or does, constitute a lien, encumbrance, or charge 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 Building, 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 Building 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

Landlord reserves to itself the right to grant to others in the future nonexclusive utility easements over, under, through, across or on the Leased Land in locations that will not unreasonably interfere with the Tenant’s or the University’s use of the Leased Land.

OPERATION OF PROJECT

General. Upon Completion of the Project, Tenant will deliver possession of the Project 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. Landlord, in agreeing to the terms of the Sub-Ground Lease, is relying on the expertise, experience and reputation of Tenant to cause the Premises to be maintained in such condition.

LICENSE AGREEMENT

Landlord hereby agrees to cause the University, pursuant to the CFIA Ground Lease, to enter into the License Agreement with Tenant.

ASSIGNMENT OF LEASE

Assignment. Except for the lease of the Project 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 Project. 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. Without limiting the foregoing, a transfer or assignment that requires Landlord’s consent will also include (i) if Tenant is a

partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of fifty percent (50%) or more of the partners, or transfer of twenty-five percent (25%) or more of partnership interests, within a twelve (12)-month period, or the dissolution of the partnership without immediate reconstitution thereof, (ii) if Tenant is a limited liability company, the withdrawal or change, voluntary, involuntary or by operation of law, of fifty percent (50%) or more of the members, or transfer of twenty-five percent (25%) or more of membership interests, within a twelve (12)-month period, or the dissolution of the entity without immediate reconstitution thereof, and (iii) if Tenant is a closely held corporation (i.e., whose stock is not publicly held and not traded through an exchange or over the counter), (A) the dissolution, merger, consolidation or other reorganization of Tenant, except as otherwise expressly provided for in the Sub-Ground Lease, (B) the sale or other transfer of more than an aggregate of fifty percent (50%) of the voting shares of Tenant (other than to immediate family members by reason of gift or death), within a twelve (12)-month period, or (C) the sale, mortgage, hypothecation or pledge of more than an aggregate of fifty percent (50%) of the value of the unencumbered assets of Tenant within a twelve (12) month period. Notwithstanding the foregoing, or anything else in the Sub-Ground Lease to the contrary, in no event shall Landlord's consent be required for a transfer of one original member's interest in Tenant to another original member of Tenant, so long as such transfer would not 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 direct payment Build America Bonds, as applicable.

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 \$3,000,000 per occurrence.

(c) Special Form – Property Insurance covering the Building including all tenant improvements that are part of the Work and all other improvements, alterations and additions to the Premises, against all risks, in an amount equal to one hundred percent (100%) of the full replacement value of the Building, sufficient 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, rental loss coverage up to one (1) year of the "Additional Rent" payable under the Space Lease, and such other coverages as may be requested by Landlord or University in writing; provided that prior to Completion of the Project, Tenant will be allowed to satisfy its obligations under the Sub-Ground Lease by carrying Builder's Risk insurance in accordance with the applicable provisions of the Development Agreement.

(d) Workers' Compensation and Employer's Liability as required by California law.

(e) Prior to Completion, the Earthquake Insurance Policy (as defined in the Development Agreement) required under the Development Agreement.

The coverages referred to in (a) and (b) above shall include Landlord and University as an additional insured; provided such a provision shall apply only in proportion to and to the extent of the negligent acts or omissions of Tenant, its officers, partners, agents, and employees. The coverages referred to in (c) above shall name Landlord as an additional insured and loss payee as its interest may appear pursuant to the Sub-Ground Lease and the Development Agreement, and shall name the University as an additional insured and loss payee to the extent required in accordance with the Development Agreement. 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 material modification, change or cancellation of any of the above insurance coverages. The coverages required under the Sub-Ground Lease will not limit the liability of Tenant.

Basis of Insurance. If the insurance required to be carried under the Sub-Ground Lease is written on a "claims made" form, coverages will survive for no less than three (3) years. Coverages will also provide for a retroactive date of placement coinciding with the Effective Date of the Sub-Ground Lease.

Proceeds. The proceeds from any insurance covering damage to the Project will be held by Tenant in a separate bank account, and applied as set forth under the heading "Damages and Destruction" below; provided (i) Developer will provide Landlord with an accounting of such proceeds and such account promptly upon written request from Landlord, and shall also provide Landlord with any related documents reasonably requested by Landlord in connection therewith, and (ii) if the proceeds are in excess of \$250,000, then Landlord and Tenant will jointly name a mutually agreed upon independent corporate trustee to hold the insurance proceeds for such purposes in trust and to make disbursements as provided in the Sub-Ground Lease. Notwithstanding the foregoing, in the event of damage to the Project occurring prior to Completion, the applicable provisions of the Development Agreement shall control with respect to the subject matter of this paragraph.

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.

University's Self Insurance Rights. After Completion, in the event that the University exercises its rights, pursuant to the Space Lease, to satisfy Tenant's property insurance obligations under the Space Lease through the University's insurance programs, then such election by the University and the University's performance of its resulting obligations under the Space Lease shall satisfy the Tenant's obligations under the Sub-Ground Lease.

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 Project in accordance with the Development Agreement, in the event of a Casualty, Tenant will not be entitled to terminate the Sub-Ground Lease or to exercise its Casualty Assignment Right, and Tenant's rights and obligations will be governed by the terms and conditions of the Development Agreement.

Restoration; Termination. After Completion of the Project in accordance with the Development Agreement, unless Tenant is entitled to exercise, and does properly exercise, its "Casualty Assignment Right" (as defined in the Space Lease) under the Space Lease as a result of a Casualty, then promptly after a Casualty occurs Tenant will diligently and with commercially reasonable promptness repair the Premises to the condition existing prior to the Casualty. Tenant's obligations under the Sub-Ground Lease will not be limited by any lack of insurance or any insufficiency in insurance proceeds, except as expressly allowed in accordance with the Space Lease. If Tenant is entitled to exercise, and does properly exercise, its Casualty Assignment Right 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 assignee 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.

Termination. Any termination of the Sub-Ground Lease by Tenant due to Casualty pursuant to the Sub-Ground Lease shall be expressly conditioned upon (i) the payment of all Net Proceeds to Landlord, and (ii) the assignment of Tenant's interest in the Space Lease, and Sub-Ground Lease (if applicable), to Landlord or its designee pursuant to the Space Lease Assignment Agreement and Ground Lease Assignment Agreement (if applicable).

Tenant Performance. Tenant's elections under the preceding paragraphs shall be made within thirty (30) days of the loss, and restoration shall be prosecuted with due diligence. 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 Project, and any statute or regulation, including, without limitation, 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 Project.

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, whether by condemnation proceedings or otherwise, or any transfer thereof 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 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. Unless Tenant is entitled to exercise, and does properly exercise, its "Taking Assignment Right" (as defined in the Space Lease) under the Space Lease as a result of a Taking, then the Sub-Ground Lease will remain in full force and effect. If Tenant is entitled to exercise, and does properly exercise, its Taking Assignment Right under the Space Lease 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 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 assignee 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.

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) each party to the Sub-Ground Lease will be entitled to prosecute claims in such condemnation proceedings for the value of their respective interests, and (ii) Tenant will commence all work required to remedy any physical damage done by such Taking to restore the Project for the continuation of the use being made thereof prior to such Taking, and thereafter prosecute the same to completion with all due diligence.

Taking With Termination. In the event of any Taking which results in the termination of the Lease in accordance with the foregoing, each party to the Sub-Ground Lease will be entitled to prosecute claims in such condemnation proceedings for the value of its respective interest; provided Tenant will pay any Net Proceeds to Landlord.

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 fails to pay the Ground Rent at the times specified in the Sub-Ground Lease and such failure shall continue for five (5) 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) Tenant is in default under any other Transaction Document beyond applicable notice and cure periods.

(k) 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 any one of the following remedies in addition to any other remedies it may have under Applicable Law, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever; provided (i) during the term of the Development Agreement such remedies shall be limited as set forth in the Development Agreement, and (ii) in the event of a default under (k) above with respect to any Transaction Document to which Landlord is a party, then to the extent the remedies set forth in the applicable Transaction Document conflict with the remedies set forth below, then the remedies set forth in such Transaction Document shall control:

(a) Terminate the Sub-Ground Lease or cause Tenant to assign its Interest in the Sub-Ground Lease to Landlord's designee, immediately upon written notice thereof to Tenant, 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 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, and Landlord may recover from Tenant the following:

(i) The worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under the Sub-Ground Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, costs incurred under the Indenture or related to the Bonds, and costs related to the assignment of the Space Lease; and

(v) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Applicable Law.

The term "rent" as used in under the heading "Remedies" will be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of the Sub-Ground Lease, whether to Landlord or to others. As used in Sections (i) and (ii), above, the "worth at the time of award" will be computed by allowing interest at the Interest Rate. As used in (iii) above, the "worth at the time of award" will be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(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 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 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 termination or expiration 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, encumbrance, claim and charge 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 the same condition as when the construction of such buildings, other structures, and improvements was completed, only normal wear and tear excepted, unless Tenant will be relieved of Tenant's obligation to repair, reconstruct, restore or replace damaged or destroyed buildings, other structures or improvements pursuant to the Sub-Ground Lease.

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, without limitation, the insurers and lenders of Tenant.

HOLDING OVER BY TENANT

Tenant shall not use or remain in possession of the Premises after the 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 in 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.

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 to the Sub-Ground Lease 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 hereto, 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 expressed.

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 Project, including, without limitation, 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 Project, including, without limitation, 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 CFIA Ground Lease, to not disturb the Tenant's rights to possession of the Leased Land and Project pursuant to the Sub-Ground Lease in the event of a termination of the Landlord's interest in the CFIA 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 Project that would 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 direct payment Build America Bonds, 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 or convenient for the parties to comply with the requirements of any continuing disclosure agreement entered into pursuant to SEC Rule 15c2-12 or comparable legal requirements.

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 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. The 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 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 direct payment Build America Bonds, as applicable.

Payments for the 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 Landlord has the right, at any time with notice to Tenant, to transfer all or any portion of its interest in the Leased Land, Project, 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

“Actual Base Year Operating Expenses” means the actual Operating Expenses incurred or accrued by Landlord during the Base Year.

“Base Year” means the first Lease Year.

“Bond Trustee” or “Trustee” means Bank of New York Mellon Trust Company, NA as Trustee under the Indenture.

Bonds” means collectively the Series 2010A Bonds and the Series 2010B Bonds.

“Calendar Year” means each twelve (12) month period from January 1 though December 31 during the Lease Term.

“CFIA” means Campus Facilities Improvement Association, a California non-profit corporation.

“Comparison Year” means initially, the (12) twelve 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.

“Developer Ground Lease” means that certain Ground Lease by and between Landlord and CFIA.

“Development Agreement” means that certain Lease Disposition and Development Agreement by and among Landlord, CFIA and the Tenant.

“Estimated Base Year Operating Expenses” means an aggregate amount equal to \$1,601,000, as set forth on the chart attached to the Space Lease (which amount will 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) or any other delay that is not the result of a breach by Landlord of, or Landlord’s failure to comply with, or a Developer Change Order under, the terms of the Development Agreement (including, without limitation, the delay in the execution of the Development Agreement and the Space Lease until February 2010), Landlord has not achieved the Completion of Landlord’s Work by December 31, 2010, this amount will be increased by the lesser of (i) 0.417% per month, and (ii) 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 Excused Delay.

“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 the California Infrastructure and Economic Development Bank, and its successors and assigns under the Indenture.

“Landlord” means Edgemoor/McCarthy Cook Partners LLC, a California limited liability company.

“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 and operation of the Building, including Landlord’s obligations under the Space Lease, including taxes, costs of insurance, supplies, management fees, compensation (including employment taxes and fringe benefits) of persons for duties performed in connection with the maintenance and operation of the Building (exclusive of janitorial, security, and utility services), and the cost of any improvements required to be made to the Building subsequent to the Substantial Completion Date as a result of new laws enacted after, or changes in applicable laws occurring after November 1, 2009 (the “Legal Compliance Reference Date”); provided (A) Operating Expenses will not include (i) the Capital Account Payments set forth 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, and (B) if the cost of any improvements required to be made to the Building subsequent to the Substantial Completion Date as a result of new laws enacted after, or changes in applicable laws occurring after the Legal Compliance Reference Date is greater than \$100,000, then Tenant shall have the right to elect that Landlord amortize the cost of such work over the then remaining Lease Term, along with a market based interest component, but only as far as Landlord can actually finance such costs.

“Reconciliation” means a detailed written accounting based upon an aggregate amount, substantially in the form of the chart attached to the Space Lease, 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).

“Series 2010A Bonds” means the \$19,670,000 aggregate principal amount of the California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010A.

“Series 2010B Bonds” means the \$188,000,000 aggregate principal amount of the California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A), Series 2010B (Taxable-Build America Bonds).

“Space Lease” means that certain Lease for the Premises by and between Landlord and Tenant.

“Tenant” means The Regents of the University of California, a California public corporation.

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, 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 term of the Space Lease (the “Lease Term”) will commence on the “Lease Commencement Date”, which is the Bond Issuance Date, and will expire on the day that is the later of (i) thirty (30) years after the date of Completion of Landlord’s Work in accordance with the Development Agreement (the “Substantial Completion Date”), and (ii) the last day of the month when the last Base Rent Payment Date occurs (the “Lease Expiration Date”). As used herein, the term “Lease Year” will 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.

RENT

Base Rent. 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. Notwithstanding anything to the contrary in the Space Lease, (i) the management fee payable to Landlord under the Space Lease will be calculated based upon the amount of Base Rent paid by Tenant regardless of whether such Base Rent is paid to

Landlord or to the Trustee, and (ii) if the Bonds are prepaid by Tenant, the management fee shall continue to be payable to Landlord as though Base Rent was still being paid by Tenant to the Landlord or the Trustee; provided if Tenant prepays the Bonds it shall have the option to pay the management fee to Landlord in a lump sum on a discounted basis in the manner set forth in the Space Lease. In accordance with the Developer Ground Lease, the Base Rent paid by Tenant under the Space Lease shall 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. In addition to the Base Rent payable pursuant to the Space Lease, Tenant will pay to Landlord as "Additional Rent" the initial annual sum of Two Million Seventy One Thousand Dollars (\$2,071,000), and is payable in equal monthly installments of One Hundred Seventy Two Thousand Five Hundred Eighty Three and 33/100 Dollars (\$172,583.33) in advance on or before the first day of each month, beginning on the Additional Rent Commencement Date. Following the Base Year, the amount of Additional Rent payable under the Space Lease will be adjusted as provided below. Additional Rent is inclusive of both Operating Expenses and Capital Account Payments, and the initial Additional Rent set forth above includes the Estimated Base Year Operating Expenses (defined below) and the Capital Account Payments payable during the first Lease Year. In addition to the foregoing, all other expenses expressly payable by Tenant under the Space Lease, including without limitation, payments for taxes, utilities, Alteration costs, Bond Administrative Charges, and Tenant's Capital Expenses, will be deemed to be "rent" due under the Space Lease by Tenant (collectively the "Other Rent"). 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; provided such payments will in all events be equal to (i) the Estimated Base Year Operating Expenses plus any Allowed Increases (defined in Section 3.3(d) below), plus/minus (ii) any expected increase/decrease in Operating Expenses for such Calendar Year above/below the Actual Base Year Operating Expenses. 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, up to a maximum refund of \$100,000, and (ii) if the Actual Base Year Operating Expenses are greater than \$1,701,000, Tenant shall not be responsible for reimbursing Landlord, except to the extent such difference is due to: (A) material changes to the scope of the Landlord's Work which deviate from that certain Basis of Design (including Appendix Volumes 1 and 2) dated April 11, 2008, as modified by supplements dated May 20, 2008 and June 13, 2008 and as modified to include the amendments and modifications reflected in the Approved Design Documents (as defined in the Development Agreement, the "ADD"), (B) any material increase in the Landlord's actual cost of maintaining insurance pursuant to the Space Lease to the extent such increase is due to events beyond the Landlord's reasonable control, (C) any material increase in the cost of union labor to the extent such increase is due to events beyond the Landlord's reasonable

control, (D) any Federal, State or local tax impositions on the Site or Landlord's leasehold interest imposed between June 1, 2008 and the last day of the Base Year, (E) any licensing and regulatory costs (excluding costs of improvements, modifications, or alterations, including without limitation any costs related to Landlord's Work) incurred by Landlord due to new laws enacted, or changes in applicable laws, between June 1, 2008 and the last day of the Base Year, including any changes to the Americans with Disabilities Act ("ADA") and any "green" initiatives of the City, and their application to the use and operation of the Premises, (F) any costs related to changes in the work rules and/or operating requirements of UCSF or Tenant between June 1, 2008 and the last day of the Base Year, (G) any costs incurred by Landlord and related to the containment and disposal of Hazardous Substances generated by Tenant's operations in the Premises during the Base Year, (H) any changes in Tenant's use of the Premises during the Base Year for purposes other than the uses described in the ADD, or (I) 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 (collectively the additional costs described in subclauses (A) through (I) are referred to herein as the "Allowed Increases"). Tenant will 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, subject further to Tenant's rights under the Space Lease.

Tenant will have the right, at its expense and upon written notice given to Landlord no later than ninety (90) days after receipt of a Reconciliation, 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 excess of four percent (4%), 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 four percent (4%), 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; (4) any taxes paid by Tenant under 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, or due to a Taking impacting the Premises; (7) insurance costs to the extent arising due to any administrative errors or omissions made by Landlord in connection with procuring and maintaining insurance with respect to the Building and the Space Lease; (8) costs incurred by Landlord due to its failure to perform its Lease obligations or a Landlord Default; (9) except as set forth in item (12), below, overhead and profit increment paid to Landlord or to subsidiaries or 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 management fees or administrative fee (other than the administrative fee expressly allowed) in excess of the greater of (A) \$278,353, and (B) \$278,353 plus two percent (2%) of all amounts of Additional Rent payable under the Space Lease in excess of the Additional Rent payable during the Base Year; (13) any costs related to (i) Landlord's Initial Environmental Work, except for ongoing monitoring and remediation costs related to Landlord's Initial Environmental Work including the methane mitigation system installed as part of Landlord's Initial Environmental Work, or (ii) the Excluded Environmental Obligations; (14) any reserves, (15) any costs covered by the warranties

given by Landlord to Tenant, either in the Space Lease or the Development Agreement, or covered by any Required Warranties to the extent enforceable through Landlord's commercially reasonable efforts; and (16) any costs expressly excluded from Operating Expenses.

If Landlord, without the expressed written consent of Tenant, and not as the result of a written request by or requirement of Tenant or CFIA, (i) materially increases, after the Base Year, the scope of coverage of the insurance carried by Landlord beyond the scope required by the Lease and/or carried by Landlord during the Base Year, or materially reduces, after the Base Year, the deductible amounts of its insurance policies, or (ii) adds a new category of service or new category of cost item that was not included in Operating Expenses during the Base Year (such as providing a concierge or valet parking service that was not provided during the Base Year), then Operating Expenses for the Base Year will be deemed to be retroactively increased to the amount they would have been had such increased scope of coverage, or reduced deductible amount, or such new category of service or new category of cost item, been applicable during the Base Year. The items in subsection (ii) above will not include any new taxes, assessments or utility charges.

Capital Account. A portion of the annual Additional Rent payable by Tenant under the Space Lease includes the annual sum of \$470,000 (the "Capital Account Payment") to be held by Landlord in an interest bearing account mutually agreed upon by Landlord and Tenant from time to time (the "Capital Account"). The sums in the Capital Account are to be used by the Landlord solely for the purposes of performing Capital Expense Work. The amount of the Capital Account Payment is not subject to increase during the Lease Term. During the first fifteen (15) Lease Years, to the extent the funds in the Capital Account are not sufficient to cover all of the costs of any Capital Expense Work, Landlord will be solely responsible for such excess costs as are needed to complete such Capital Expense Work. To the extent that the funds in the Capital Account are not sufficient to cover all of the costs of any Capital Expense Work after the fifteenth (15th) Lease Year, then Tenant will reimburse Landlord, as Other Rent, for the actual reasonable out of pocket costs incurred by Landlord in performing any Capital Expense Work required under Space Lease ("Tenant's Capital Expenses"). Tenant will be entitled to 100% of the funds in the Capital Account (including any interest and monies earned) 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. 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 Premises should 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 do all things 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 immediately forward the same to Tenant, in all cases 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 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.

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, to the best of Landlord's knowledge, as of the Substantial Completion Date, the Premises and the construction of the Landlord's Work will be in 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 occupy the Premises as of the Substantial Completion Date for the uses described in the ADD.

COMPLIANCE WITH LAWS

Landlord will comply with all local, municipal, State and Federal codes (including but not limited to the ADA and all applicable laws regarding payment of prevailing wage), laws or regulations with respect to the Premises, and shall make any improvements, modifications or additions to the Premises required for compliance. Any 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 applicable codes, laws or regulations after the Legal Compliance Reference Date) will be subject to reimbursement as Operating Expenses, subject to the provisions of the Space Lease. Notwithstanding the foregoing, for avoidance of doubt, Tenant and Landlord agree that any capital improvements required by changes in applicable codes, laws or regulations after the Legal Compliance Reference Date shall not be subject to the provisions under the heading of "Capital Expense Work" below. Subject to Landlord's obligations above, Tenant will observe and comply with all laws, 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. Without limiting the foregoing, Landlord recognizes that it is the practice of Tenant to require payment of prevailing wage rates pursuant to any construction contract to improve space to be leased by the Tenant if the Tenant will be using more than fifty percent (50%) of the assignable square feet of the project in which the construction will be performed.

INSURANCE REQUIREMENTS

Tenant's Insurance. 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 Self Insurance Program for owned, non owned, or hired automobiles with a combined single limit of not less than \$3,000,000 per occurrence.

(c) Property, Fire and Extended Coverage Self-Insurance Program in an amount sufficient to reimburse Tenant for all of its equipment, trade fixtures, inventory, fixtures and other personal property

located on or in the Premises including any leasehold improvements constructed or installed by Tenant within the Premises during the Lease Term.

(d) Workers' Compensation and Employers Liability as required by California law.

The coverages referred to under subclauses (a) and (b) of above shall include Landlord and CFIA as an additional insured; provided such a provision shall apply only in proportion to and to the extent of the negligent acts or omissions of Tenant, its officers, agents and employees. Tenant, upon the execution of the Space Lease, will furnish Landlord and CFIA with certificates of insurance evidencing compliance with all requirements, along with original endorsements 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 material modification, change or cancellation of any of the above insurance coverages. The coverages required in the Space Lease will not limit the liability of Tenant.

Landlord's Insurance. Landlord, at its sole cost and expense, reimbursable as part of Operating Expenses, shall 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 \$3,000,000 per occurrence.

(c) Special Form – Property Insurance covering the Building including all tenant improvements that are part of the Landlord's Work and all other improvements, Alterations and additions to the Premises, against all risks, in an amount equal to one hundred percent (100%) of the full replacement value of the Building 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, rental loss coverage up to one (1) year of Additional Rent, and such other coverages as may be requested by Tenant in writing or required by CFIA pursuant to the Developer Ground Lease; provided any additional coverages requested by Tenant or CFIA during the Base Year in addition to those coverages set forth above, may result in an Allowed Increase.

(d) 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; provided such a provision shall apply only in proportion to and to the extent of the negligent acts or omissions of Landlord, its officers, partners, agents, and employees. The coverages referred to under subclause (c) shall name 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 material modification, change or cancellation of any of the above insurance coverages. The coverages required in the Space Lease will not limit the liability of Landlord.

Tenant's Self Insurance Program. At any time during the Lease Term, Tenant may elect, with written notice to the Landlord, to have Landlord's property insurance obligations under the Space Lease satisfied 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. Such election will be subject to Landlord's reasonable consent. 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 Landlord's insurance obligations under the Space Lease. In the event that Tenant makes the election set forth above, then (i) Operating Expenses for the applicable period when Tenant's insurance is in effect will exclude the Landlord's costs for property insurance under (c), (ii) Landlord and Tenant agree to maintain the Premises in accordance with any loss engineering recommendations made by Tenant's insurance carrier(s), and (iii) for the purposes of determining Additional Rent, the Estimated Base Year Operating Expenses will be reduced by \$96,750.00.

REPAIR AND MAINTENANCE

Landlord and Tenant Obligations. Subject to Capital Expense Work as described below, the respective repair and maintenance responsibilities of Landlord and Tenant are set forth in Exhibit F of the Space Lease, the Summary of Repair and Maintenance Responsibilities; provided each party will be solely responsible for repairing any damage caused by the negligent, reckless, or willful actions of such party or its employees, agents, contractors. A party's obligations set forth in Exhibit F of the Space Lease will include all repairs and replacements, both ordinary and extraordinary and both structural and nonstructural, as may become necessary during the Lease Term. The materials and equipment used and installed by a party in the course of its maintenance and repair work will be of 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," defined as an event which threatens the safety and/or well-being of the occupants of the Premises, or which if left uncorrected, would prevent Tenant from continuing ongoing operations.

Standards of Operation. Landlord will perform its obligations under the Space 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. 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 such condition. If Tenant reasonably believes that the Landlord is materially deficient in (i) meeting the standards of operation set forth in the Space Lease, (ii) maintaining the Premises as provided for in the Space Lease, or (iii) otherwise causing an Event of Default under the Space Lease relating to the maintenance of the Project (each of which will be an "Operating Deficiency"), such Operating Deficiency will 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) days following such notification, or such other time period as Landlord and Tenant agree is appropriate, provided that if such Operating Deficiency cannot reasonably be cured within a fifteen (15) day period, Landlord shall not be in breach of this obligation if it starts its curative efforts within such 15-day period and thereafter completes such cure with all reasonable diligence and in good faith.

(c) If Landlord does not agree that such Operating Deficiency exists, then either party may submit the dispute to arbitration as provided for in the Space Lease. If the arbitrator finds that an

Operating Deficiency exists, the arbitrator shall also be required to determine the period within which Landlord will be required to cure.

(d) If Landlord fails to cure, or cause to be cured, the Operating Deficiency within the period determined in the Space Lease, it will be an Event of Default.

Capital Expense Work. As used in the Space Lease, the term "Capital Expense Work" means any of the following: (i) any one (1) particular repair, maintenance, or improvement event required to be performed by Landlord costing in excess of \$100,000, and/or (ii) 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, (B) any work that is covered by a warranty given by Landlord under either the Space Lease or the Development Agreement, or under a Required Warranty, (C) any capital improvements required by new laws enacted after, or changes in applicable codes, laws, or regulations after the Legal Compliance Reference Date, (D) any work required due to the negligent, reckless, or willful actions of Landlord or its employees, agents, contractors, including without limitation Landlord's failure to properly repair and maintain the Premises in accordance with the Space Lease, or (E) any work required due to the negligent, reckless, or willful actions of Tenant or its employees, agents, contractors, including without limitation Tenant's failure to properly repair and maintain the Premises in accordance with the Space Lease. Landlord will be required to obtain Tenant's prior written consent to any proposed Capital Expense Work, and shall provide Tenant with at least thirty (30) days prior written notice of any proposed Capital Expense Work. Tenant's consent to any proposed Capital Expense Work shall not be unreasonably withheld, conditioned or delayed. During the first fifteen (15) Lease Years, Landlord will perform all Capital Expense Work at its sole cost and expense, provided Landlord will be entitled to use the funds in the Capital Account to pay for the actual and reasonable out of pocket costs incurred by Landlord in performing such Capital Expense Work. After the fifteenth (15th) Lease Year, Landlord shall still be responsible for performing all Capital Expense Work; provided Tenant will be responsible, as Other Rent, for the payment of any Tenant's Capital Expenses.

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: (i) Landlord is given at least fifteen (15) days prior written notice of such Alterations, such notice to describe the Alterations in reasonable detail (the "Alteration Notice"), (ii) the Alterations are performed in a good and workmanlike manner in accordance with good construction practices and with such permits as are required by law, and (iii) Tenant, at its sole cost, constructs 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. Upon completion of the Alterations, the same will be considered a part of the Building, and thus insured by the Landlord. Notwithstanding the foregoing, Landlord will 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 pursuant to the Space Lease.

Landlord Performance of Alterations. If Tenant desires that Landlord construct the Alterations it shall communicate this request to the Landlord, and both Landlord and Tenant shall mutually decide on the best course to accomplish the Alteration work, including a design-bid/permit-build approach, or a design-build approach. In such event, the Alterations will be constructed by Landlord in accordance with the Space Lease.

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

Other than the Base Rent Assignment Agreement, (i) Landlord will not assign its interest in the Space Lease and/or the rents payable under the Space Lease without Tenant's and CFIA's prior written consent, and

(ii) Tenant will not assign its interest in the Space Lease or sublet all or any portion of the Premises without the prior written consent of Landlord and CFIA, such consents not to be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing, Tenant may assign its interest in the Space Lease to UCSF or other any entity affiliated with or controlled by Tenant without the need for Landlord's or CFIA's consent so long as Tenant provides Landlord and CFIA with written notice of any such transaction, and so long as Tenant remains primarily obligated for the performance of all of its obligations under the Space Lease. 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 adversely affect the owners of the Bonds.

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:

(a) Restoration Notice. Within forty-five (45) days of the Casualty Landlord shall notify Tenant in writing (the "Casualty Notice") of (i) 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, (ii) whether the Casualty is an Uninsured Peril, and (iii) whether, in the event the Casualty is an Uninsured Peril, Landlord elects to exercise the Casualty Assignment Right described below.

(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 Landlord's exercise of its Casualty Assignment Right.

(c) Additional Rent Abatement. 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, the Additional Rent will be abated in proportion to the ratio that square footage of the Premises which is unfit for Tenant's use and occupancy for the purposes permitted under the Space Lease bears to the total square footage of the Premises.

(d) Landlord's Restoration. Unless Landlord properly exercises the Casualty Assignment Right, then after a Casualty Landlord will diligently and with commercially reasonable promptness repair the Premises to the condition existing prior to the Casualty (except for Tenant's personal property). Landlord's obligations under the Space Lease will not be limited by any lack of insurance or any insufficiency in insurance proceeds, except as expressly allowed. During a restoration period, Landlord will use commercially reasonable efforts to provide Tenant with any temporary services that Tenant may reasonably require to continue operating in the Premises.

(e) Uninsured Peril. As used in the Space Lease the term "Uninsured Peril" means an occurrence or event that is not fully covered under the insurance policies required to be carried by Landlord in the Space Lease, assuming that Landlord has procured and maintained all such policies in the forms and amounts, and with the endorsements, required above, but excluding any damage caused by the negligent, reckless, or willful actions of Landlord or its employees, agents, contractors. If a Casualty is an Uninsured Peril, then the Landlord will promptly inform Tenant of such (at the same time or prior to the delivery of the Casualty Notice), and if the out of pocket costs required to restore the Premises exceeds \$280,000 (the "Uninsured/Taking Cost Cap"), Landlord will have the right, with written notice to Tenant and CFIA given within forty-five (45) days of the Casualty, to assign its

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 Right”) pursuant to the Space Lease Assignment Agreement. If no such notice is given within such time period it will be deemed that Landlord has waived such right and Landlord will remain obligated to complete all restoration work required to restore the Premises to the condition required in (d) above. If the out of pocket costs to restore the Premises do not exceed the Uninsured/Taking Cost Cap, Landlord will be obligated to complete all restoration work required to restore the Premises to the condition required in (d) above. If Landlord exercises the Casualty Assignment Right, then CFIA (or its designee) and Landlord shall enter into an assignment agreement in the form attached to the Space Lease as Exhibit B (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. Landlord will not be allowed to exercise the Casualty Assignment Right if a Landlord Default is then continuing.

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 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 five (5) business days after written notice; or
- c) Tenant fails to faithfully perform or observe any other covenant or undertaking required under the Space Lease and such failure continues for a period in excess of thirty (30) days after written notice thereof; provided if the nature of Tenant’s obligation is such that more than thirty (30) days are required for performance, then Tenant will not be in default if Tenant commences performance within such 30-day period and thereafter diligently prosecutes the same to completion; or
- d) Tenant is adjudicated bankrupt; or
- e) intentionally deleted; or
- f) Tenant’s failure to perform its obligations under the Space Lease, as and when required, causes a default by Landlord under the Developer Ground Lease (beyond all applicable notice and cure periods thereunder).

Landlord’s Sole and Exclusive Remedies. If a Tenant Default occurs, Landlord will be entitled to exercise 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 this transaction, and absent such limited remedies Tenant would not have entered into the Space Lease. In particular 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 being payable by Tenant as Additional Rent within fifteen (15) days after Tenant’s receipt of Landlord’s written demand therefor.

Interest. Any payment of Base Rent not paid on the date due will bear interest at the rate (the “Default Rate”) that is the lesser of (i) ten percent (10%) 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 not received within three (3) business days of the date due will bear interest at the Default Rate, from the date delinquent until paid in full.

Tenant Default Assignment Right. Subject to the Base Rent Assignment Agreement, Landlord may elect, with written notice to Tenant and CFIA, to assign its interest in the Space Lease to CFIA or its designee (the “Tenant Default Assignment Right”), and to recover from Tenant, as liquidated damages, an amount equal to the present value, as of the date of such assignment, of the management fees that Landlord would have been paid in connection with the Space Lease (assuming the then in affect Base Rent and Additional Rent per annum) for the remainder of the Lease Term, such fees discounted at the rate of six percent (6%) per annum (“Tenant Default Damages”), the parties agreeing that the actual damages Landlord is likely to sustain will be difficult to ascertain and the Tenant Default Damages is a reasonable estimate of Landlord’s actual damages; provided in the event that the Tenant Default occurs pursuant to (f) above, and Landlord exercises its Tenant Default Assignment Right, then Landlord will also be able to collect any actual damages, if any, it incurs pursuant to the Developer Ground Lease. 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. 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.

In the event that a Tenant Default occurs pursuant to (f) above, and Landlord elects to not exercise its Tenant Default Assignment Right, then Landlord will be able to collect from Tenant any actual damages, if any, it incurs pursuant to the Developer Ground Lease.

DEFAULT BY LANDLORD

Default. A “Landlord Default” will not be deemed to occur unless Landlord fails to perform its obligations under the Space Lease 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 obligations; provided if the nature of Landlord’s obligation is such that more than thirty (30) days are required for performance, then a Landlord Default will not have occurred so long as Landlord commences performance within such 30-day period and thereafter diligently prosecutes the same to completion. Notwithstanding the foregoing, a Landlord Default will include (i) a default by Landlord under the Developer Ground Lease or Development Agreement beyond the applicable notice and cure periods, and (ii) the failure or refusal of Landlord to perform any obligation it has agreed to incur under the Space Lease as soon as possible in the event of an “emergency,” defined as an event which threatens the safety and/or well-being of the occupants of the Premises, or which will prevent Tenant from continuing ongoing operations if left uncured. 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 within thirty (30) days after receipt of demand therefor, along with any reasonable legal

fees incurred by Tenant due to the Landlord Default; provided if Tenant exercises the self-help remedy set forth in this sentence with respect to any Landlord Default that is also an Abatement Event, then the abatement of Additional Rent shall cease as of the day that Tenant exercises such self-help remedy with respect to such Landlord Default. 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 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 a portion of the Premises is acquired or condemned by eminent domain or sold in lieu thereof (regardless of whether such taking is permanent or temporary in nature) (each a "Taking"), the Space Lease will not terminate and will remain in effect as to the part not taken and Tenant's obligation to pay all of the Base Rent will remain in full force and effect without adjustment but the Additional Rent and will be adjusted in the same ratio as the rentable square footage remaining is to the rentable square footage of the Premises prior to such Taking, and Landlord will at its own cost and expense restore the remaining portion of the Premises to the extent necessary to render them reasonably suitable for the purposes leased under the Space Lease; provided if either (i) the Taking is of the entire Premises, or (ii) the out of pocket costs required to restore the Premises due to the Taking exceeds the Uninsured/Taking Cost Cap, Landlord shall have the right, with written notice to Tenant and CFIA given at least forty-five (45) days prior to the effective date of the Taking (or as soon as possible if for any reason Landlord has less than sixty (60) days prior notice of the effective date of a Taking), to assign its interest in the Space Lease to CFIA or its designee (the "Taking Assignment Right") pursuant to the Space Lease Assignment Agreement, subject to the Base Rent Assignment Agreement. If no such notice is given within such time period it will be deemed that Landlord has waived such right and Landlord will remain obligated to complete all restoration work required to restore the remaining portion of the Premises to the extent necessary to render them reasonably suitable for the purposes leased under the Space Lease. If Landlord exercises the Taking Assignment Right, then CFIA (or its designee) and Landlord will 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. Landlord will not be allowed to exercise the Taking 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 Taking Assignment Right.

Award. In the event of any Taking as provided above, either whole or partial, as long as Landlord does not exercise the Taking Assignment Right, 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 provided such claim does not adversely affect Landlord's claim for damages. If Landlord exercises the Taking Assignment Right, Tenant will be entitled to the entire award related to such Taking, and Landlord hereby assigns any interest it may have in such award to Tenant and will take such actions as may be required to effectuate such assignment. Tenant expressly waives any right or claim to any part thereof; except that 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 for relocation expenses.

NO SUBORDINATION

The Space Lease will in no event be subject and subordinated to the lien of any mortgages and deeds of trust which are hereafter placed against the Landlord's interest or estate in the Site or Premises and Landlord will not encumber its interest or estate in the Site or Premises.

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 of convenient for the parties to comply with the requirements of any continuing disclosure agreement entered into pursuant to SEC Rule 15C2-12 or comparable legal requirements.

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. The 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. The 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 or permit 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 CFIA Ground Lease.

Non-Disturbance. Landlord agrees to cause CFIA to agree, pursuant to the Developer Ground Lease, to not disturb the Tenant's rights to possession of the Premises pursuant to the Space Lease in the event of a termination of the Landlord's interest in the Developer Ground Lease due to a default by Landlord thereunder, so long as (i) such default by Landlord was not caused by Tenant's failure to perform its obligations under the Space Lease, (ii) an Event of Default by Tenant under the Space Lease is not then continuing, and (iii) Tenant executes any documents reasonably requested by CFIA in connection therewith, and Tenant agrees to attorn to CFIA as a direct tenant under the Space Lease in such event, such agreement to attorn self operable and without the need for further documentation.

APPENDIX D
FORM OF BOND COUNSEL OPINION

[closing date]

California Infrastructure
and Economic Development Bank
Sacramento, California

California Infrastructure and Economic Development Bank
Revenue Bonds (UCSF Neurosciences Building 19A)
Series 2010A and Series 2010B (Taxable—Build America Bonds)
(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 \$19,670,000 aggregate principal amount of California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A) Series 2010A (the "Series 2010A Bonds") and \$188,000,000 aggregate principal amount of California Infrastructure and Economic Development Bank Revenue Bonds (UCSF Neurosciences Building 19A) Series 2010B (Taxable—Build America Bonds) (the "Series 2010B Bonds," and together with the Series 2010A Bonds, the "Bonds"), issued pursuant to an Indenture, dated as of March 1, 2010 (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee). 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, dated as of March 1, 2010 (the "Loan Agreement"), between the Issuer and Campus Facilities Improvement Association (the "Borrower"), the Space Lease, dated as of March 1, 2010 (the "Space Lease"), between The Regents of the University of California ("The Regents"), as tenant, and Edgemoor/McCarthy Cook Partners 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 opinion speaks only as of its date and is not intended to, and may not, be relied upon 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 Series 2010A 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, 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 in the State of California. We express no opinion with respect to any indemnification, contribution,

penalty, choice of law, choice of forum, choice of venue, 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. 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 funds established pursuant to the Indenture (other than 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 Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and interest on the Bonds is exempt from State of California personal income taxes. Interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series 2010B Bonds is not excluded from gross income for federal income tax purposes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

BOOK-ENTRY ONLY SYSTEM FOR THE SERIES 2010 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 Series 2010 Bonds, as nominee of DTC, references in this Official Statement, including the Appendices hereto, to the Owners of the Series 2010 Bonds (other than as set forth under "TAX MATTERS") shall mean Cede & Co. and shall not mean the Beneficial Owners (as defined herein) of the Series 2010 Bonds.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2010 Bonds. The Series 2010 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 Series 2010 Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Series 2010 Bonds. Purchases of beneficial interests in the Series 2010 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 Series 2010 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 Series 2010 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 Series 2010 Bonds.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of 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, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (the "DTC Participants") deposit with DTC. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC 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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

Purchases of Series 2010 Bonds under the DTC system must be made by or through DTC Participants which will receive a credit for the Series 2010 Bonds 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 Series 2010 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 Series 2010 Bonds, except in the event the use of the book-entry system for the Series 2010 Bonds is discontinued.

SO LONG AS CEDE & CO., AS THE NOMINEE FOR DTC, IS THE REGISTERED OWNER OF THE SERIES 2010 BONDS, THE INFRASTRUCTURE BANK AND THE TRUSTEE WILL TREAT CEDE & CO. AS THE ONLY REGISTERED OWNER OF THE SERIES 2010 BONDS FOR ALL PURPOSES UNDER THE INDENTURE, INCLUDING RECEIPT OF ALL PRINCIPAL OF, AND PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2010 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 Series 2010 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 Series 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 Bonds; DTC's records reflect only the identity of the DTC Participants in whose accounts such Series 2010 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 DTC Participants, by DTC Participants to Indirect Participants and by DTC 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.

Redemption notices will be sent to DTC. If less than all of the Series 2010 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in the Series 2010 Bonds being redeemed.* Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to material documents. For example, Beneficial Owners of the Series 2010 Bonds may wish to ascertain that the nominee holding the Series 2010 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010 Bonds unless authorized by a DTC Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy to the Infrastructure Bank as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Series 2010 Bonds are credited on the record date (identified in the listing attached to the omnibus proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2010 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 DTC Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Infrastructure Bank or the Trustee, as paying agent, on the payment dates in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants and Indirect 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 DTC Participant or Indirect Participant and not of DTC, the Trustee, as paying agent, or the Infrastructure Bank, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Infrastructure Bank or Trustee, as paying agent, disbursement of such payments to DTC Participants will be the responsibility of DTC, and the disbursement of such payments to the Beneficial Owners will be the responsibility of the DTC Participants and the Indirect Participants.

The Trustee will pay principal of and interest on the Series 2010 Bonds to or upon the order of the respective owners, as shown on the Bond Register, or upon their respective attorneys duly authorized in writing, as provided in the Indenture, and all such payments will be valid and effective to fully satisfy the Infrastructure Bank's obligations

* By written notice of the Trustee, DTC will modify its practice and observe a pro rata reduction of principal with respect to the Series 2010B Bonds.

with respect to the payment of principal and interest on the Series 2010 Bonds to the extent of the sum or sums so paid. Upon delivery by the nominee of DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of the existing nominee, and subject to the provisions of the Indenture with respect to record dates, the word "Cede & Co." in the Indenture will refer to such new nominee of DTC.

DTC may discontinue providing its services as depository with respect to the Series 2010 Bonds at any time by giving reasonable notice to the Infrastructure Bank or the Trustee. In the event the Infrastructure Bank or the Trustee receives written notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities, and the Infrastructure Bank is unable to find a substitute depository, in the opinion of the Infrastructure Bank, willing and able to undertake the functions of the Bond Depository upon reasonable and customary terms, then the Series 2010 Bonds will no longer be restricted to being registered in the Bond Register in the name of the nominee of DTC or DTC, but may be registered in whatever name or names the Beneficial Owners (as certified by DTC) transferring or exchanging the Series 2010 Bonds will designate, in accordance with the provisions of 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 Series 2010 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 Series 2010 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 Series 2010 Bonds to any nominee or DTC Participant having Series 2010 Bonds credited to its account or (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Series 2010 Bonds.

Notwithstanding any other provision described herein or contained in the Indenture to the contrary, so long as any Series 2010 Bond is registered in the name of the nominee of DTC, all payments with respect to the principal of and interest on such Series 2010 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 SERIES 2010 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 SERIES 2010 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 SERIES 2010 BONDS; OR
(F) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE, CEDE & CO., AS
OWNER.**

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