

2002

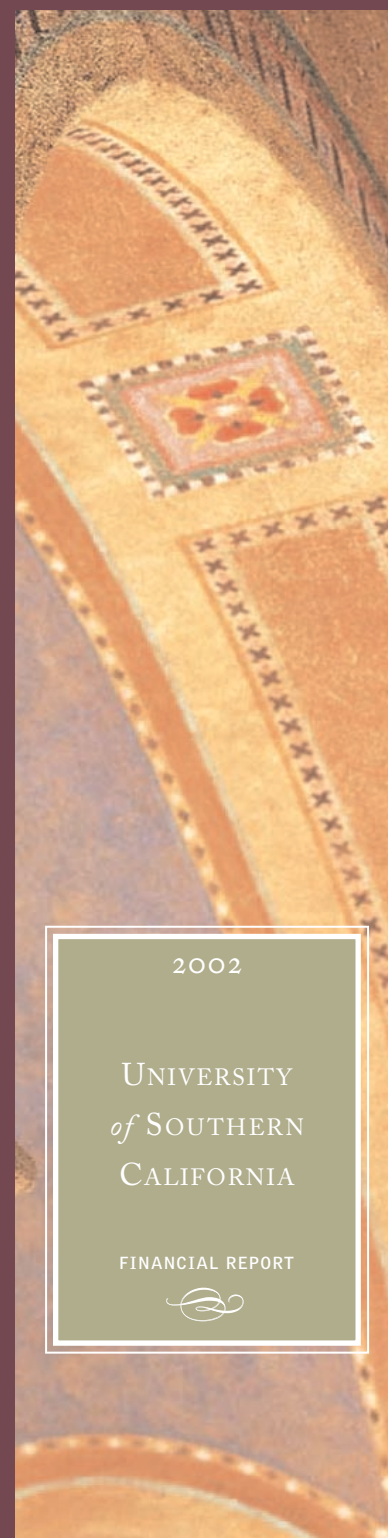
UNIVERSITY
of SOUTHERN
CALIFORNIA

FINANCIAL REPORT



highlights of the university

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Financial (in thousands)

| | June 30 2002 | June 30 2001 |
|---|-----------------|-----------------|
| Total revenues | \$1,408,363 | \$1,399,148 |
| Total cash gifts and equipment gifts | \$383,916 | \$319,971 |
| Capital expenditures | \$111,235 | \$116,987 |
| Total assets at year end | \$3,713,915 | \$3,644,605 |
| Total debt at year end | \$226,473 | \$230,922 |
| Increase (decrease) in net assets | \$72,790 | (\$112,690) |
| Market value of endowment | \$2,130,977 | \$2,086,245 |
| Executed contracts, grants, subcontracts and cooperative agreements | \$591,909 | \$588,499 |
| Property, plant and equipment, net | \$793,809 | \$735,692 |
| Net Asset Balances: | | |
| Unrestricted | \$2,011,776 | \$2,036,688 |
| Temporarily restricted | \$156,094 | \$203,934 |
| Permanently restricted | \$951,769 | \$806,227 |

Students

Enrollment (head count, autumn):

| | | |
|------------------------------------|--------|--------|
| Undergraduate students | 16,037 | 15,705 |
| Graduate and professional students | 13,776 | 13,489 |

Degrees conferred:

| | | |
|------------------------------------|-------|-------|
| Bachelor degrees (1) | 3,896 | 3,769 |
| Advanced and all other degrees (1) | 4,093 | 4,056 |

| | | |
|---|---------------|---------------|
| Annual tuition rate | \$25,060 | \$23,664 |
| Student aid-scholarships, fellowships and tuition remission | \$214,760,000 | \$195,385,000 |

Faculty

| | | |
|------------------------|-------|-------|
| Full-time (autumn) (2) | 2,535 | 2,281 |
| Percentage tenured (3) | 80 | 79 |

(1) As of June 30.

(2) Full-time contract faculty.

(3) Percentage tenured is for tenure track faculty.

report of independent accountants

The Board of Trustees of the University of Southern California

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of activities, expenses, and cash flows, which appear on pages 3 through 17 of this financial report, present fairly, in all material respects, the consolidated financial position of the University of Southern California and its subsidiaries (the "university") at June 30, 2002, and the changes in their consolidated net assets, expenses, and cash flows for the year 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 an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the university's 2001 financial statements; and in our report dated September 7, 2001, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 audit provides a reasonable basis for our opinion.



Los Angeles, California
September 6, 2002

consolidated balance sheet

in thousands

| | June 30 2002 | June 30 2001 |
|---|--------------------|--------------------|
| | A | B |
| Assets | | |
| 1 Cash and cash equivalents | \$193,793 | \$208,222 |
| 2 Accounts receivable, [see Note 3] | 86,978 | 94,235 |
| 3 Notes receivable, net of allowance for doubtful accounts, \$8,364 (2002), \$10,025 (2001) | 96,011 | 101,525 |
| 4 Pledges receivable, [see Note 9] | 141,189 | 176,887 |
| 5 Investments, [see Note 4] | 2,353,572 | 2,300,864 |
| 6 Inventories, prepaid expenses and other assets | 48,563 | 27,180 |
| 7 Property, plant and equipment, net, [see Note 5] | 793,809 | 735,692 |
| 8 TOTAL ASSETS | \$3,713,915 | \$3,644,605 |
| Liabilities | | |
| 9 Accounts payable | \$51,091 | \$50,905 |
| 10 Accrued liabilities | 51,272 | 51,760 |
| 11 Refundable advances | 21,474 | 16,696 |
| 12 Current portion of long-term debt | 4,507 | 4,485 |
| 13 Deposits and deferred revenue | 40,244 | 38,407 |
| 14 Post-retirement health benefit obligation, [see Note 14] | 3,324 | 3,668 |
| 15 Actuarial liability for annuities payable | 129,705 | 133,794 |
| 16 Federal student loan funds | 60,880 | 61,412 |
| 17 Long-term debt, [see Note 6] | 221,966 | 226,437 |
| 18 Other | 9,813 | 10,192 |
| 19 TOTAL LIABILITIES | 594,276 | 597,756 |
| Net Assets | | |
| 20 Unrestricted | 2,011,776 | 2,036,688 |
| 21 Temporarily restricted | 156,094 | 203,934 |
| 22 Permanently restricted | 951,769 | 806,227 |
| 23 TOTAL NET ASSETS | 3,119,639 | 3,046,849 |
| 24 TOTAL LIABILITIES AND NET ASSETS | \$3,713,915 | \$3,644,605 |

The accompanying notes are an integral part of this statement.

consolidated statement of activities

in thousands | WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2001

| | Unrestricted Net Assets | | | | Year Ended June 30, 2002 | | | | | Year Ended June 30, 2001 | | |
|---|-------------------------|----------------------|--|---|--------------------------|----------------------|------------------|-------------------------------|-----------------------------------|-----------------------------------|--------------------|--------------------|
| | Education and General | Health Care Services | Sponsored Research and Departmental Activities | Unexpended Plant and Debt Service Funds | Invested in Plant | Long-term Investment | Student Loan | Total Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total Net Assets | Total Net Assets |
| | A | B | C | D | E | F | G | H | I | J | K | L |
| Revenues | | | | | | | | | | | | |
| 1 Student tuition and fees | \$666,067 | | | | | | | \$666,067 | | | \$666,067 | \$613,601 |
| 2 Less financial aid | (177,946) | | | | | | (177,946) | | | (177,946) | (161,719) | |
| 3 Net student tuition and fees | 488,121 | | | | | | 488,121 | | | 488,121 | 451,882 | |
| 4 Endowment income | 30,212 | | \$15,232 | | | | 45,444 | | \$184 | 45,628 | 43,301 | |
| 5 Investment and other income | 5,644 | | 2,087 | \$15,296 | | | 21,945 | \$3 | 339 | 22,287 | 24,354 | |
| 6 Net appreciation (depreciation) in fair value of investments | | | (332) | 137 | | | (144,961) | (3,760) | (4,606) | (153,327) | (146,599) | |
| 7 Government contracts and grants | | | 225,779 | | | | 225,779 | | | 225,779 | 214,501 | |
| 8 Recovery of indirect costs | 83,591 | | | | | | 83,591 | | | 83,591 | 77,336 | |
| 9 Gifts and pledges | 30,864 | | 113,827 | 26,990 | \$17,047 | | 188,728 | 6,635 | 154,297 | 349,660 | 333,399 | |
| 10 Sales and service | 22,678 | | | | | | 22,678 | | | 22,678 | 24,225 | |
| 11 Auxiliary enterprises | 146,222 | | | | | | 146,222 | | | 146,222 | 135,323 | |
| 12 Professional Services Agreements | | \$118,020 | | | | | 118,020 | | | 118,020 | 111,125 | |
| 13 Clinical practices | | 37,387 | | | | | 37,387 | | | 37,387 | 32,982 | |
| 14 Kenneth Norris Jr. Cancer Hospital | | 81,683 | | | | | 81,683 | | | 81,683 | 68,504 | |
| 15 Loss on the disposal/sale of plant assets | | | | | | | (2,311) | | | (2,311) | (6,513) | |
| 16 Other | 20,808 | | | | | | 20,808 | | | 20,808 | 22,757 | |
| 17 Present value adjustment to annuities payable | | | | | | | | (3,901) | (1,962) | (5,863) | 12,571 | |
| 18 Net assets released from restrictions | | | 36,920 | 1,916 | | | 49,527 | (46,817) | (2,710) | | | |
| 19 TOTAL REVENUES | 828,140 | 237,090 | 393,513 | 44,339 | 14,736 | (134,075) | (1,082) | 1,382,661 | (47,840) | 145,542 | 1,480,363 | 1,399,148 |
| Expenses | | | | | | | | | | | | |
| 20 Educational and general activities | 788,383 | | 322,312 | | 26 | | 1,110,721 | | | 1,110,721 | 1,035,274 | |
| 21 Health care services | | 216,109 | | | | | 216,109 | | | 216,109 | 204,447 | |
| 22 Depreciation | | 4,892 | | | 63,386 | | 68,278 | | | 68,278 | 113,117 | |
| 23 Interest on indebtedness | | 1,113 | | 11,352 | | | 12,465 | | | 12,465 | 15,483 | |
| 24 TOTAL EXPENSES | 788,383 | 222,114 | 322,312 | 11,352 | 63,412 | | 1,407,573 | | | 1,407,573 | 1,368,321 | |
| Transfers within Unrestricted Net Assets: | | | | | | | | | | | | |
| 25 Mandatory transfers for external debt service | (26,398) | | (836) | 27,234 | | | | | | | | |
| 26 Student loan matching requirement | (254) | | | | | | | | | | 254 | |
| 27 Unrestricted gifts designated for long-term investment | (13,428) | | | | | | | 13,428 | | | | |
| 28 Internal loan repayments | (19,833) | | (68) | 19,901 | | | | | | | | |
| 29 Accumulated gains used for spending rule | 24,947 | | 23,842 | | | | (48,789) | | | | | |
| 30 Designated support for student aid | 33,955 | | (33,955) | | | | | | | | | |
| 31 Other miscellaneous nonmandatory transfers | (20,874) | | (20,850) | (14,666) | | | 55,597 | 793 | | | | |
| 32 Sale of plant assets | | | 3,929 | | (3,929) | | | | | | | |
| 33 Property, plant and equipment acquisitions | (17,754) | (39) | (12,178) | (43,308) | 73,279 | | | | | | | |
| Increase (Decrease) in Net Assets before cumulative effect | | | | | | | | | | | | |
| 34 of accounting change | 118 | 14,937 | 31,085 | 22,148 | 20,674 | (113,839) | (35) | (24,912) | (47,840) | 145,542 | 72,790 | 30,827 |
| 35 Cumulative effect of accounting change [Note 1] | | | | | | | | | | | | (143,517) |
| 36 Increase (Decrease) in Net Assets | 118 | 14,937 | 31,085 | 22,148 | 20,674 | (113,839) | (35) | (24,912) | (47,840) | 145,542 | 72,790 | (112,690) |
| 37 Transfer operating surplus to departmental net assets | (118) | | 118 | | | | | | | | | |
| 38 Beginning Net Assets | | 3,733 | 204,324 | 151,441 | 263,824 | 1,415,535 | (2,169) | 2,036,688 | 203,934 | 806,227 | 3,046,849 | 3,159,539 |
| 39 ENDING NET ASSETS | | \$18,670 | \$235,527 | \$173,589 | \$284,498 | \$1,301,696 | (\$2,204) | \$2,011,776 | \$156,094 | \$951,769 | \$3,119,639 | \$3,046,849 |
| Nature of specific net assets: | | | | | | | | | | | | |
| 40 Internally designated | | (\$40,748) | \$28,463 | | (\$3,200) | | (\$6,051) | (\$21,536) | | | (\$21,536) | (\$32,369) |
| 41 Gift and departmental | | | 135,321 | \$61,039 | | | 3,847 | 200,207 | | | 200,207 | 191,323 |
| 42 Externally restricted | | | | | | | | | \$11,243 | \$29,570 | 40,813 | 48,765 |
| 43 Pledges | | | | | | | | | 112,868 | 28,323 | 141,191 | 176,887 |
| 44 Kenneth Norris Jr. Cancer Hospital | | 59,418 | | | | | | 59,418 | | | 59,418 | 51,524 |
| 45 Unexpended endowment income | | | 71,743 | | | | | 71,743 | | | 71,743 | 57,937 |
| 46 Annuity and living trusts | | | | | | | | | 31,983 | 64,595 | 96,578 | 113,799 |
| 47 True endowment | | | | | | | | | | 829,281 | 829,281 | 670,710 |
| 48 Funds functioning as endowment | | | | | | \$1,301,696 | | 1,301,696 | | | 1,301,696 | 1,415,535 |
| 49 Debt service funds | | | | 112,550 | | | | 112,550 | | | 112,550 | 85,739 |
| 50 Invested in plant | | | | | 287,698 | | | 287,698 | | | 287,698 | 266,999 |
| 51 | | \$18,670 | \$235,527 | \$173,589 | \$284,498 | \$1,301,696 | (\$2,204) | \$2,011,776 | \$156,094 | \$951,769 | \$3,119,639 | \$3,046,849 |

The accompanying notes are an integral part of this statement.

consolidated statement of expenses

in thousands | WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2001

| | Academic, Health Care and Student Services | | | | | Support Services | | | | | Year Ended June 30, 2002 | Year Ended June 30, 2001 |
|--|--|-----------------------|-----------------------------------|-------------------------|---------------------|--|----------------|--------------------------|----------------------------|--|-----------------------------|-----------------------------|
| | Instruction, Departmental Research and Activities | Sponsored Research | Libraries and Art Galleries | Health Care Services | Student Services | Plant Operations and Maintenance | Administration | General Institutional | Fund Raising Activities | Auxiliary Enterprises Operations | | |
| | A | B | C | D | E | F | G | H | I | J | K | L |
| 1 Compensation | \$303,853 | \$117,006 | \$11,142 | \$109,986 | \$19,104 | \$15,800 | \$19,694 | \$33,378 | \$11,028 | \$34,286 | \$675,277 | \$610,811 |
| 2 Fringe benefits | 93,608 | 28,089 | 3,330 | 34,904 | 5,745 | 5,029 | 6,351 | 13,899 | 3,471 | 10,408 | 204,834 | 181,935 |
| 3 Materials and supplies | 58,011 | 72,246 | 6,415 | 25,368 | 6,678 | 14,540 | 8,162 | 16,312 | 4,678 | 32,840 | 245,250 | 253,788 |
| 4 Cost of goods sold | 9,434 | 11,193 | | | 11 | 386 | | 3,302 | | 39,957 | 64,283 | 63,714 |
| 5 Utilities | | | | 543 | | 17,103 | | | | | 17,646 | 20,284 |
| 6 Travel | 9,721 | 5,920 | 188 | 156 | 992 | 58 | 622 | 285 | 477 | 1,780 | 20,199 | 19,359 |
| 7 Telephone | | | | 1,089 | | 7,652 | | | | | 8,741 | 8,351 |
| 8 Other | 25,021 | | | 4,703 | 1,509 | | 492 | 6,838 | 318 | 12,359 | 51,240 | 46,834 |
| Kenneth Norris Jr. Cancer Hospital and | | | | | | | | | | | | |
| 9 USC Care purchased services | | | | 39,360 | | | | | | | 39,360 | 34,645 |
| 10 | 499,648 | 234,454 | 21,075 | 216,109 | 34,039 | 60,568 | 35,321 | 74,014 | 19,972 | 131,630 | 1,326,830 | 1,239,721 |
| Allocations: | | | | | | | | | | | | |
| 11 Depreciation | 25,021 | 10,036 | 4,363 | 4,892 | 2,222 | | 3,149 | 3,828 | 155 | 14,612 | 68,278 | 113,117 |
| 12 Interest | 1,849 | | | 1,113 | 185 | 1,724 | 39 | 5,647 | | 1,908 | 12,465 | 15,483 |
| 13 Plant operations and maintenance | 29,291 | 6,637 | 765 | | 3,510 | (62,292) | 1,272 | 7,108 | 131 | 13,578 | | |
| 14 | \$555,809 | \$251,127 | \$26,203 | \$222,114 | \$39,956 | | \$39,781 | \$90,597 | \$20,258 | \$161,728 | \$1,407,573 | \$1,368,321 |

The accompanying notes are an integral part of this statement.

consolidated statement of cash flows

in thousands

| | Year Ended June 30, 2002 | Year Ended June 30, 2001 |
|---|-----------------------------|-----------------------------|
| | A | B |
| Cash Flows from Operating Activities | | |
| 1 (Decrease) increase in Net Assets | \$72,790 | (\$112,690) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| 2 Depreciation | 68,278 | 113,117 |
| 3 Loss on the disposal/sale of plant assets | 1,887 | 6,618 |
| 4 Cumulative effect of accounting change | | 143,517 |
| 5 Equipment gifts-in-kind | (17,047) | (1,296) |
| 6 Present value adjustment to annuities payable | 6,123 | (12,319) |
| 7 Decrease (increase) in accounts receivable | 7,257 | (6,568) |
| 8 Decrease (increase) in pledges receivable | 35,698 | (54,730) |
| 9 Increase in inventories, prepaid expenses and other assets | (21,383) | (4,762) |
| 10 Increase (decrease) in accounts payable | 186 | (2,973) |
| 11 Decrease (increase) in accrued liabilities | (488) | 7,548 |
| 12 Increase in refundable advances | 4,778 | 756 |
| 13 Increase in deferred revenue | 1,837 | 2,743 |
| 14 Decrease in post-retirement health benefit obligation | (344) | (277) |
| 15 Other | (379) | (850) |
| 16 Contributions restricted for permanent investment and property, plant and equipment | (191,574) | (59,163) |
| 17 Net realized gain on sale of investments | (90,193) | (175,417) |
| 18 Net unrealized depreciation in investments | 243,643 | 322,866 |
| 19 Net cash provided by operating activities | <u>121,069</u> | <u>166,120</u> |
| Cash Flows from Investing Activities | | |
| 20 Proceeds from note collections and sale of notes | 16,960 | 15,214 |
| 21 Notes issued | (11,446) | (9,519) |
| 22 Proceeds from sale of investments | 2,833,234 | 2,735,885 |
| 23 Purchase of investments | (3,039,392) | (2,845,096) |
| 24 Purchase of property, plant and equipment, net | (111,235) | (116,987) |
| 25 Net cash used by investing activities | <u>(311,879)</u> | <u>(220,503)</u> |
| Cash Flows from Financing Activities | | |
| Contributions restricted for permanent investment: | | |
| 26 Endowment | 162,028 | 36,169 |
| 27 Plant | 30,399 | 22,699 |
| 28 Trusts and other | (853) | 295 |
| 29 Repayment of long-term debt | (4,449) | (3,496) |
| 30 Increase in long-term debt | | 15 |
| 31 (Decrease) increase in federal student loan funds | (532) | 2,890 |
| 32 Investment income and (losses)/gains on annuities payable | (8,143) | 14,019 |
| 33 Payments on annuities payable | (13,825) | (11,793) |
| 34 Increase to annuities payable resulting from new gifts | 11,756 | 17,586 |
| 35 Net cash provided by financing activities | <u>176,381</u> | <u>78,384</u> |
| 36 Net (decrease) increase in cash and cash equivalents | <u>(14,429)</u> | <u>24,001</u> |
| 37 Cash and cash equivalents at beginning of year | <u>208,222</u> | <u>184,221</u> |
| 38 Cash and cash equivalents at end of year | <u>\$193,793</u> | <u>\$208,222</u> |

The accompanying notes are an integral part of this statement.

notes to consolidated financial statements

NOTE 1

Significant accounting policies followed by the University of Southern California are set forth below:

The University of Southern California is a not-for-profit, major private research university. The financial statements have been prepared on the accrual basis and include the accounts of the University of Southern California and all wholly-owned subsidiaries. All material transactions between the university and its subsidiaries have been eliminated.

For financial reporting purposes, net assets and revenues, expense, gains, and losses are classified into one of three categories: unrestricted, temporarily restricted, or permanently restricted. These categories, as described below, are the method by which the Financial Accounting Standards Board has chosen to standardize the financial statements of all private not-for-profit institutions.

Unrestricted net assets:

Education and general: Education and general include the revenues and expenses associated with the principal educational mission of the university.

Health care services: Health care services are reflective of the revenues and expenses associated with the Health Care Consultation Center, the Professional Services Agreement with Los Angeles County, the Kenneth Norris Jr. Cancer Hospital and USC Care, Inc., a contracting entity for the independent private practices and the professional services provided to affiliated hospitals.

Sponsored research and departmental activities: Sponsored research agreements recognize revenue as it is earned through expenditure in accordance with the agreement. Any funding received in advance of expenditure is recorded as refundable advances. Departmental net assets include gifts to the university and its various schools and departments. The university has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the university and, therefore, the university's policy is to record

these net assets as unrestricted. Internally designated net assets are those which have been appropriated by the Board of Trustees or designated by management.

Unexpended plant and debt service funds: Unexpended plant and debt service net assets include gifts and income earned on unexpended balances for capital projects which are currently under construction and transfers from the operating budget to fund the debt service requirements for outstanding bonds, notes and mortgages payable. The university follows the policy of lifting the restrictions on contributions of cash or other assets received for the acquisition of long-lived assets when the long-lived assets begin construction or are acquired.

Invested in plant: Invested in plant assets, including collections of works of art and historical treasures, are stated at cost or fair value at the date of gift, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of the assets. Equipment is removed from the records at the time of disposal. The university follows the policy of recording contributions of long-lived assets directly in invested in plant assets instead of recognizing the gift over the useful life of the asset.

Long-term investment: Long-term investments include gifts and Board of Trustee designations to funds functioning as endowment, realized and unrealized gains and reinvested income (income earned in excess of the spending rule) on all endowment funds.

Student loan: Student loan net assets record lending activity to students utilizing university resources designated for that purpose.

Temporarily restricted net assets:

Gifts for which donor imposed restrictions have not been met (primarily future capital projects), charitable remainder unitrusts, pooled income funds, gift annuities and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted are included in temporarily restricted net assets.

notes to consolidated financial statements

Permanently restricted net assets:

Gifts, charitable remainder unitrusts, pooled income funds, gift annuities and pledges receivable which require by donor restriction the investment of the corpus in perpetuity and only the income be made available for program operations in accordance with donor restrictions and gifts which have been donor stipulated to provide loans to students are included in permanently restricted net assets.

Other accounting policies:

The financial statements present expenses by functional classification in accordance with the overall service mission of the university. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation expense is allocated based on square footage occupancy. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Plant operations and maintenance represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy.

Cash equivalents consist of resources invested in money market funds, bankers' acceptances and negotiable certificates of deposit, maturing within 30 days.

Investments are stated at market value except mortgages and gifts of real estate which are stated at cost or fair market value on the date of gift, in accordance with SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the statement of activities. Realized gains and losses upon the sale of investments are calculated using the specific identification method and trade date.

Diversified venture capital holdings and certain other limited partnership interests are invested in both publicly and privately owned securities. The fair values of private investments are based on

estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable market values, generally at March 31, prior to the university's fiscal year end. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. The private investments have a high concentration of pre-initial public offering securities, subjecting these investments to market value volatility. For the year ended June 30, 2002, included in the net depreciation in fair value of investments of \$153,327,000 on the Consolidated Statement of Activities is \$77,000,000 of net depreciation related to venture capital holdings and certain other limited partnership interests.

Inventories are valued at the lower of cost (first-in, first-out) or market.

The university receives federal reimbursement for a portion of the costs of its facilities and equipment used in organized sponsored research. Recent revisions of the Office of Management and Budget Circular A-21, which establishes principles for determining such reimbursable costs, require conformity of the lives and methods used for federal cost reimbursement accounting and financial reporting purposes. In fiscal year 2001, the university adopted a revised set of useful lives for equipment to reflect updated useful life estimates, which also conforms to those used for federal recovery purposes. In addition, the method of computing depreciation on buildings was changed, which also conforms to those used for federal recovery purposes.

Depreciation charges for equipment and library books in fiscal year 2001 are higher as a result of the adoption of the new useful lives which are shorter, ranging from 5 to 10 years, than those previously employed, ranging from 10 to 15 years. For the year ended June 30, 2001, depreciation expense increased by approximately \$55,700,000, due to the change in useful lives.

Effective July 1, 2000, the university changed its method of depreciating buildings from an overall useful life of 50 years to individual component lives ranging from 5 to 50 years. The total amount reported as a cumulative effect of a change in accounting principle decreased net assets by approximately \$143,000,000. The effect of the change for the year ended June 30, 2001 was to increase depreciation expense by approximately \$11,300,000.

Student tuition and fees are recorded as revenues during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

The actuarial liability for annuities payable include gift annuities, unitrusts, pooled income funds and life estates which are based on the present value of future payments discounted at 6% and 1983 Group Annuity Tables.

In accordance with the university's Revenue Center Management policy, educational and general activities are reflective of the performance of a balanced operating budget for the year and any surplus at the end of the year is transferred to internally designated departmental assets.

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 expenses during the reporting period. Actual results could differ from these estimates.

The financial statements include certain prior-year summarized comparative information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the university's financial statements

for the year ended June 30, 2001 from which the summarized financial information was derived. Certain reclassifications have been made to summarized financial information for comparative purposes.

NOTE 2

Kenneth Norris Jr. Cancer Hospital (Hospital) is a not-for-profit public benefit corporation organized under the laws of the State of California whose sole corporate member is the University of Southern California. Accordingly, the results of operations and net financial position of the Hospital are reflected in the university's financial statements in current unrestricted net assets. Included in current unrestricted net assets is all property, plant and equipment related to the Hospital. Depreciation expense related to the property, plant and equipment is calculated using the straight-line method over the estimated useful lives, ranging from 2 to 40 years.

A portion of the Hospital's revenue from health care services is derived from funds provided on behalf of patients under federal programs. Revenues under the programs are dependent upon federal governmental reimbursement principles and policies. Funds received are subject to audit which could result in retroactive adjustments. Management believes that it has properly applied these principles and policies in the determination of net revenue from these programs.

The Hospital has agreements with third-party payors, including health maintenance organizations, that provide payment for health care services at amounts different from standard rates established by the Hospital. The Hospital's health care services revenue is reported net of contractual allowances from third-party payors and others for services rendered, and further adjusted for estimates of uncollectible amounts.

During 2002, the Hospital entered into a five-year agreement with an unaffiliated third party to manage the day-to-day operations of the Hospital.

notes to consolidated financial statements

NOTE 3*Accounts receivable (in thousands):*

| | |
|---|-----------------|
| U.S. Government, net of allowance for doubtful accounts of \$1,411 | \$15,396 |
| Student and other, net of allowance for doubtful accounts of \$5,841 | 24,163 |
| Patient care and practice plans, net of allowance for doubtful accounts and contractual adjustments of \$76,077 | 47,419 |
| | <u>\$86,978</u> |

NOTE 4*Investments (in thousands):*

| | Cost | Market |
|--|--------------------|--------------------|
| Stocks | \$1,034,731 | \$1,062,710 |
| Bonds: | | |
| U.S. Government | 159,995 | 167,566 |
| Corporate | 298,721 | 297,166 |
| International investments | 288,135 | 334,008 |
| Venture capital | 214,501 | 190,290 |
| Assets held by other trustees | 197,128 | 200,191 |
| Mortgages, notes and other receivables | 4,715 | 4,757 |
| Real estate and other | 82,196 | 96,884 |
| TOTAL | <u>\$2,280,122</u> | <u>\$2,353,572</u> |

NOTE 5*Property, plant and equipment (in thousands):*

| | |
|------------------------------------|------------------|
| Land and improvements | \$80,819 |
| Building and improvements | 865,218 |
| Equipment | 271,263 |
| Library books and collections | 140,040 |
| Construction-in-progress | 72,023 |
| | <u>1,429,363</u> |
| Less: Accumulated depreciation | 684,654 |
| | <u>744,709</u> |
| Kenneth Norris Jr. Cancer Hospital | 103,783 |
| Less: Accumulated depreciation | 54,683 |
| | <u>49,100</u> |
| | <u>\$793,809</u> |

NOTE 6*Bonds, notes and mortgages payable (in thousands):*

| | Interest % | Maturity | |
|--|------------|-----------|------------------|
| <i>California Educational Facilities Authority (CEFA) Revenue Bonds and Notes:</i> | | | |
| Series 1993A | 5.95-6.10 | 2003-2005 | \$3,195 |
| Series 1993B | 5.20-7.00 | 2003-2016 | 32,255 |
| Premium | | | 39 |
| Series 1997A | 5.50-5.70 | 2003-2016 | 37,540 |
| Discount | | | (255) |
| Series 1997C | 5.125 | 2029 | 50,000 |
| Discount | | | (1,448) |
| Series 1998A | 5.00 | 2029 | 30,360 |
| Series 1999 | 5.50 | 2028 | 60,000 |
| Premium | | | 1,127 |
| <i>University of Southern California Bonds</i> | | | |
| Series 1998 | 5.26-6.26 | 2004-2019 | 13,585 |
| Discount | | | (44) |
| <i>Mortgages</i> | Various | 2003-2004 | 119 |
| | | | <u>226,473</u> |
| Less current portion of long-term debt | | | 4,507 |
| | | | <u>\$221,966</u> |

Principal payment requirements relating to bonds, notes and mortgages payable, after giving effect to refunding, for the next five fiscal years are approximately: 2003 \$4,507,000; 2004 \$6,650,000; 2005 \$4,900,000; 2006 \$3,995,000; 2007 \$4,220,000.

Interest payments for fiscal year 2002 were \$12,470,000.

The bond agreements contain certain restrictive covenants including the requirement to maintain a designated amount of available assets, as defined in the agreements.

notes to consolidated financial statements

NOTE 7

Financial aid is awarded to students based on need and merit. Financial aid does not include payments made to students for services rendered to the university. Financial aid for the year ended June 30, 2002 consists of the following (in thousands):

| | Undergraduate | Graduate | Total |
|----------------------------|------------------|-----------------|------------------|
| Institutional scholarships | \$98,768 | \$39,202 | \$137,970 |
| Endowed scholarships | 13,244 | 5,256 | 18,500 |
| External financial aid | 15,374 | 6,102 | 21,476 |
| | <u>\$127,386</u> | <u>\$50,560</u> | <u>\$177,946</u> |

NOTE 8

Endowment net assets are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income be utilized for current and future needs. Long-term investment net assets (funds functioning as endowment and departmentally designated funds) have been established from restricted gifts whose restrictions have been met and unrestricted gifts which have been designated by the Board of Trustees or management for the same purpose as endowment. The university also has a beneficial interest in the net income earned from assets which are held and managed by other trustees.

Endowment and long-term investment net assets functioning as endowment are summarized as follows (in thousands):

| | Endowment | Funds functioning as endowment | Departmentally designated funds | Total |
|------------|------------------|--------------------------------|---------------------------------|--------------------|
| Pooled | \$751,049 | \$1,047,209 | \$11,095 | \$1,809,353 |
| Non-pooled | 78,232 | 243,392 | | 321,624 |
| | <u>\$829,281</u> | <u>\$1,290,601</u> | <u>\$11,095</u> | <u>\$2,130,977</u> |

Pooled investments represent endowment and long-term investment net assets which have been commingled in a unitized pool (unit market value basis) for purposes of investment. The pool is comprised of bonds (17%), stocks (51%), international investments (18%), venture capital (11%) and other investments (3%). Access to or liquidation from the pool is on the basis of the market value per unit on the preceding monthly valuation date. The unit market value at June 30, 2002 was \$428.27.

The university utilizes a spending rule for its pooled endowment in order to maximize the current and long-term investments of the endowment pool. The spending rule determines the endowment income to be distributed currently for spending with the provision that any amounts remaining after the distribution be transferred and reinvested in the endowment pool as funds functioning as endowment.

For the 2002 fiscal year, the Board of Trustees approved current distribution of 114.59% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provisions of the spending rule, \$22.31 was distributed to each time-weighted unit for a total spending rule allocation of \$84,718,000. Investment income amounting to \$9.46 per time weighted unit was earned, totaling \$35,930,000, and \$48,789,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2002 represent 4.5% of the market value of the endowment pool at June 30, 2002. Total earnings allocated for spending in fiscal year 2002 represent 4.2% of the market value of total endowment at June 30, 2002.

Approximately \$23,308,000 of the university's unrestricted long-term investments have been designated to support student loans.

NOTE 9

Unconditional promises are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges are recorded after discounting at 6% to the present value of the future cash flows.

Unconditional promises are expected to be realized in the following periods (in thousands):

| | |
|---------------------------------|------------------|
| In one year or less | \$5,890 |
| Between one year and five years | 71,761 |
| More than five years | 111,612 |
| Less: discount of \$39,235 | |
| and allowance of \$8,839 | (48,074) |
| | <u>\$141,189</u> |

Pledges receivable at June 30, 2002 have the following restrictions (in thousands):

| | |
|--|------------------|
| Endowment for departmental programs and activities | \$26,143 |
| Endowment for scholarship | 2,612 |
| Building construction | 35,856 |
| Departmental programs and activities | 76,578 |
| | <u>\$141,189</u> |

NOTE 10

Executed contracts, grants, subcontracts and cooperative agreements for future sponsored research activity which are not reflected in the consolidated financial statements at June 30, 2002 are summarized as follows (in thousands):

| | |
|--|------------------|
| Current sponsored awards | \$275,635 |
| Executed grants and contracts for future periods | 316,274 |
| | <u>\$591,909</u> |

NOTE 11

At June 30, 2002, internal loans for capital investment were \$176,758,000 which are repaid through nonmandatory transfers from the operating budget to unexpended plant within unrestricted net assets. In addition, the Board of Trustees authorized a \$5,000,000 loan from long-term investment to be utilized for student loans, of which \$752,000 was outstanding at June 30, 2002. The maturity dates range from 2003 to 2027 with various interest rates.

Internal loans maturing within each of the next five fiscal years range from \$19.7 million to \$21.0 million.

NOTE 12

Contractual commitments for educational plant amounted to approximately \$62,399,000 at June 30, 2002. It is expected that the resources to satisfy these commitments will be provided from certain unexpended plant net assets, anticipated gifts and/or debt proceeds.

During the year ended June 30, 2001, the university entered into an agreement with the County of Los Angeles to provide professional services at LAC+USC Medical Center. Under the terms of the agreement the contract automatically renewed on an annual basis unless either party gives four years' notice of the termination.

notes to consolidated financial statements

NOTE 13

Retirement benefits for exempt employees are provided through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund, The Vanguard Group, SunAmerica, Inc., Fidelity Investments and Prudential Financial. Under these defined contribution plans, the university and plan participants make annual contributions to purchase individual, fixed or variable annuities equivalent to retirement benefits earned or to participate in a variety of mutual funds or a fixed income fund. Benefits commence upon retirement and pre-retirement survivor death benefits are also provided. Charges to education and general activities expenses for the university's share of costs were approximately \$46,025,000 during the year ended June 30, 2002.

Retirement benefits for non-exempt employees are provided through a noncontributory defined benefit pension plan. The following table sets forth the plan's funded status at June 30, 2002 (in thousands):

| | |
|---|------------|
| Benefit cost | \$3,966 |
| Employer contribution | \$26,260 |
| Benefits paid | \$2,442 |
| Benefit obligation | \$92,269 |
| Fair value of plan assets | 80,442 |
| Funded status | (\$11,827) |
| Items recognized in the consolidated balance sheet: | |
| Prepaid (accrued) benefit cost | \$21,382 |
| Weighted-average assumptions: | |
| Discount rate | 7.20% |
| Expected return on plan assets | 10.00% |
| Rate of compensation increase | 5.00% |

NOTE 14

Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Post-retirement Benefits Other Than Pensions, requires an employer to disclose information in its financial statements about the obligation to provide post-retirement benefits and the cost of providing those benefits. The university established a defined benefit post-retirement health care plan that provides medical coverage to retirees (and their dependents) who retired under an incentive program in 1997. The cost of retiree and dependent medical benefits will be paid entirely by the university over the next six years.

The following table sets forth the plan's funded status reconciled with the amount shown in the university's consolidated balance sheet at June 30, 2002 (in thousands):

| | |
|---|-----------|
| Benefit cost | \$193 |
| Employer contributions | \$537 |
| Plan participant contributions | \$0 |
| Benefits paid | \$537 |
| Benefit obligation | \$2,584 |
| Fair value of plan assets | 0 |
| Funded status | (\$2,584) |
| Prepaid/(accrued) benefit cost recognized in the consolidated balance sheet | (\$3,324) |
| Weighted-average assumption: | |
| Discount rate | 6.50% |

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of postretirement medical benefits for the health maintenance organization and indemnity programs was assumed for 2002. These rates were assumed to decrease gradually to 5.5% by 2006 and remain at that level thereafter.

NOTE 15

The university is contingently liable as guarantor on certain obligations relating to equipment loans, student and parent loans, and various campus organizations. The university receives funding or reimbursement from governmental agencies for various activities, which are subject to audit. In addition, certain litigation has been filed against the university and in the opinion of university management, after consultation with legal counsel, the liability, if any, for the aforementioned matters will not have a material effect on the university's financial position.

NOTE 16

The estimated fair value of the university's bonds, notes and mortgages payable was \$230,850,000 at June 30, 2002. This fair value was estimated based upon the discounted amount of future cash outflows using the rates offered to the university for debt of the same remaining maturities.

Determination of the fair value of notes receivable, which are primarily federally sponsored student loans with U.S. Government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

Investments are carried at market value except for those for which market values are not readily determinable.

2003 summary of budgeted operating revenues and expenses

2002-03 BUDGET | in thousands

| | Undesignated Budget Education and General | | | Undesignated Budget Health Care Services | | | Designated Budget | | | Total Budget | | |
|--|--|--------------------|-------------------|---|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|-------------------|
| | 2001-02 Budget | 2002-03 Budget | Percent Change | 2001-02 Budget | 2002-03 Budget | Percent Change | 2001-02 Budget | 2002-03 Budget | Percent Change | 2001-02 Budget | 2002-03 Budget | Percent Change |
| Revenues | | | | | | | | | | | | |
| Tuition and fees | \$645,521 | \$705,161 | 9.24% | | | | | | | \$645,521 | \$705,161 | 9.24% |
| Endowment income: | | | | | | | | | | | | |
| University-wide | 6,780 | 6,930 | 2.21% | | | | | | | 6,780 | 6,930 | 2.21% |
| Schools and Departments | 42,521 | 42,419 | (0.24%) | | | | \$24,615 | \$26,543 | 7.83% | 67,136 | 68,962 | 2.72% |
| Investment income | 7,160 | 5,660 | (20.95%) | | | | | | | 7,160 | 5,660 | (20.95%) |
| Gifts: | | | | | | | | | | | | |
| University-wide | 720 | 1,200 | 66.67% | | | | | | | 720 | 1,200 | 66.67% |
| Schools and Departments | 16,182 | 16,749 | 3.50% | | | | 70,310 | 72,914 | 3.70% | 86,492 | 89,663 | 3.67% |
| Contracts and grants | | | | | | | 264,560 | 280,664 | 6.09% | 264,560 | 280,664 | 6.09% |
| Recovery of indirect costs: | | | | | | | | | | | | |
| Endowments | 3,449 | 3,787 | 9.80% | | | | | | | 3,449 | 3,787 | 9.80% |
| Gifts | 3,634 | 3,650 | 0.44% | | | | | | | 3,634 | 3,650 | 0.44% |
| Contracts and grants | 80,066 | 88,307 | 10.29% | | | | | | | 80,066 | 88,307 | 10.29% |
| Sales and service, auxiliary enterprises and other sources | 190,164 | 202,320 | 6.39% | \$132,338 | \$142,285 | 7.52% | | | | 322,502 | 344,605 | 6.85% |
| TOTAL REVENUES | \$996,197 | \$1,076,183 | 8.03% | \$132,338 | \$142,285 | 7.52% | \$359,485 | \$380,121 | 5.74% | \$1,488,020 | \$1,598,589 | 7.43% |
| Expenses | | | | | | | | | | | | |
| Compensation: | | | | | | | | | | | | |
| Faculty salaries | \$154,615 | \$166,381 | 7.61% | \$74,645 | \$76,128 | 1.99% | \$49,474 | \$46,743 | (5.52%) | \$278,734 | \$289,252 | 3.77% |
| Other salaries and wages | 246,124 | 265,947 | 8.05% | 12,534 | 16,782 | 33.89% | 89,628 | 100,929 | 12.61% | 348,286 | 383,658 | 10.16% |
| Fringe benefits | 125,623 | 137,166 | 9.19% | 25,653 | 27,533 | 7.33% | 33,839 | 36,495 | 7.85% | 185,115 | 201,194 | 8.69% |
| TOTAL COMPENSATION | 526,362 | 569,494 | 8.19% | 112,832 | 120,443 | 6.75% | 172,941 | 184,167 | 6.49% | 812,135 | 874,104 | 7.63% |
| Current expense and equipment | 206,604 | 220,930 | 6.93% | 19,454 | 21,712 | 11.61% | 159,627 | 170,057 | 6.53% | 385,685 | 412,699 | 7.00% |
| Student aid | 160,261 | 176,659 | 10.23% | | | | 25,561 | 24,307 | (4.91%) | 185,822 | 200,966 | 8.15% |
| Debt service | 61,045 | 63,423 | 3.90% | | | | 141 | 140 | | 61,186 | 63,563 | 3.88% |
| Utilities | 18,162 | 18,400 | 1.31% | | | | | | | 18,162 | 18,400 | 1.31% |
| Telephone | 16,434 | 18,460 | 12.33% | 52 | 130 | 150.00% | | | | 16,486 | 18,590 | 12.67% |
| Library acquisitions | 7,329 | 8,817 | 20.30% | | | | 1,215 | 1,450 | 19.34% | 8,544 | 10,267 | 20.17% |
| TOTAL EXPENSES | \$996,197 | \$1,076,183 | 8.03% | \$132,338 | \$142,285 | 7.52% | \$359,485 | \$380,121 | 5.74% | \$1,488,020 | \$1,598,589 | 7.43% |

| | Annenberg Center for Communication | | Annenberg School for Communication | | School of Architecture | | School of Cinema-Television | |
|-----------------------|------------------------------------|----------------|------------------------------------|----------------|------------------------|----------------|-----------------------------|----------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$6,792 | \$3,309 | \$28,650 | \$8,374 | \$11,563 | \$2,243 | \$36,119 | \$5,535 |
| Indirect | | | (239) | | (565) | | (1,412) | |
| Participation | | | (1,339) | | (565) | | (1,762) | |
| Subvention | | | 1,100 | | | | 350 | |
| Academic Initiatives | | | | | | | | |
| TOTAL REVENUES | \$6,792 | \$3,309 | \$28,411 | \$8,374 | \$10,998 | \$2,243 | \$34,707 | \$5,535 |

| | | | | | | | | |
|-----------------------------|----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|
| Expenses | | | | | | | | |
| Direct | \$5,637 | \$3,309 | \$17,192 | \$8,374 | \$5,473 | \$2,243 | \$19,265 | \$5,535 |
| Indirect | 1,155 | | 11,219 | | 5,525 | | 15,442 | |
| Undergraduate Student Aid | | | 5,645 | | 2,651 | | 6,370 | |
| Facilities Improvement Fund | | | 657 | | 275 | | 871 | |
| Other Indirect Expenses | 1,155 | | 4,917 | | 2,599 | | 8,201 | |
| TOTAL EXPENSES | \$6,792 | \$3,309 | \$28,411 | \$8,374 | \$10,998 | \$2,243 | \$34,707 | \$5,535 |

| | Institute for Creative Technology | | Davis School of Gerontology | | School of Engineering Academic Programs | | Information Sciences Institute | |
|-----------------------|-----------------------------------|-----------------|-----------------------------|----------------|---|-----------------|--------------------------------|-----------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$2,124 | \$11,210 | \$5,857 | \$8,069 | \$91,659 | \$42,327 | \$8,029 | \$60,219 |
| Indirect | (101) | | 123 | | 3,190 | | (336) | |
| Participation | (101) | | (202) | | (4,360) | | (336) | |
| Subvention | | | 200 | | 2,500 | | | |
| Academic Initiatives | | | 125 | | 5,050 | | | |
| TOTAL REVENUES | \$2,023 | \$11,210 | \$5,980 | \$8,069 | \$94,849 | \$42,327 | \$7,693 | \$60,219 |

| | | | | | | | | |
|-----------------------------|----------------|-----------------|----------------|----------------|-----------------|-----------------|----------------|-----------------|
| Expenses | | | | | | | | |
| Direct | \$1,535 | \$11,210 | \$2,784 | \$8,069 | \$59,395 | \$42,327 | \$5,886 | \$60,219 |
| Indirect | 488 | | 3,196 | | 35,454 | | 1,807 | |
| Undergraduate Student Aid | | | 242 | | 8,349 | | | |
| Facilities Improvement Fund | | | 55 | | 1,799 | | | |
| Other Indirect Expenses | 488 | | 2,899 | | 25,306 | | 1,807 | |
| TOTAL EXPENSES | \$2,023 | \$11,210 | \$5,980 | \$8,069 | \$94,849 | \$42,327 | \$7,693 | \$60,219 |

| | School of Fine Arts | | The Law School | | College of Letters, Arts and Sciences | | Marshall School of Business | |
|-----------------------|---------------------|--------------|-----------------|----------------|---------------------------------------|-----------------|-----------------------------|-----------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$7,216 | \$336 | \$27,024 | \$3,675 | \$244,359 | \$37,390 | \$123,801 | \$10,911 |
| Indirect | (351) | | 1,093 | | (3,163) | | (5,754) | |
| Participation | (351) | | (1,072) | | (11,885) | | (6,018) | |
| Subvention | | | 1,481 | | 3,000 | | | |
| Academic Initiatives | | | 684 | | 5,722 | | 264 | |
| TOTAL REVENUES | \$6,865 | \$336 | \$28,117 | \$3,675 | \$241,196 | \$37,390 | \$118,047 | \$10,911 |

| | | | | | | | | |
|-----------------------------|----------------|--------------|-----------------|----------------|------------------|-----------------|------------------|-----------------|
| Expenses | | | | | | | | |
| Direct | \$3,466 | \$336 | \$21,188 | \$3,675 | \$122,091 | \$37,390 | \$71,133 | \$10,911 |
| Indirect | 3,399 | | 6,929 | | 119,105 | | 46,914 | |
| Undergraduate Student Aid | 1,834 | | 177 | | 57,119 | | 19,951 | |
| Facilities Improvement Fund | 167 | | 571 | | 5,518 | | 3,001 | |
| Other Indirect Expenses | 1,398 | | 6,181 | | 56,468 | | 23,962 | |
| TOTAL EXPENSES | \$6,865 | \$336 | \$28,117 | \$3,675 | \$241,196 | \$37,390 | \$118,047 | \$10,911 |

| | School of Policy, Planning, and Development | | Rossier School of Education | | Institute of Safety and Systems Management | | School of Social Work | |
|-----------------------|---|----------------|-----------------------------|----------------|--|------------|-----------------------|----------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$21,258 | \$6,315 | \$17,133 | \$4,955 | (\$308) | | \$12,001 | \$4,542 |
| Indirect | (781) | | (818) | | 600 | | (577) | |
| Participation | (981) | | (818) | | | | (577) | |
| Subvention | | | | | | | | |
| Academic Initiatives | 200 | | | | 600 | | | |
| TOTAL REVENUES | \$20,477 | \$6,315 | \$16,315 | \$4,955 | \$292 | | \$11,424 | \$4,542 |

| | | | | | | | | |
|-----------------------------|-----------------|----------------|-----------------|----------------|--------------|--|-----------------|----------------|
| Expenses | | | | | | | | |
| Direct | \$12,287 | \$6,315 | \$10,539 | \$4,955 | \$292 | | \$7,669 | \$4,542 |
| Indirect | 8,190 | | 5,776 | | | | 3,755 | |
| Undergraduate Student Aid | 1,897 | | 993 | | | | 51 | |
| Facilities Improvement Fund | 503 | | 383 | | | | 308 | |
| Other Indirect Expenses | 5,790 | | 4,400 | | | | 3,396 | |
| TOTAL EXPENSES | \$20,477 | \$6,315 | \$16,315 | \$4,955 | \$292 | | \$11,424 | \$4,542 |

| | Summer and Special Programs | | School of Theatre | | Thornton School of Music | | Total Colleges, Schools, Centers and Institutes | |
|-----------------------|-----------------------------|------------|-------------------|-------------|--------------------------|----------------|---|------------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$2,044 | | \$10,008 | \$80 | \$26,940 | \$2,139 | \$682,269 | \$211,629 |
| Indirect | 55 | | (488) | | (263) | | (9,787) | |
| Participation | | | (488) | | (1,163) | | (32,018) | |
| Subvention | | | | | 900 | | 9,531 | |
| Academic Initiatives | 55 | | | | | | 12,700 | |
| TOTAL REVENUES | \$2,099 | | \$9,520 | \$80 | \$26,677 | \$2,139 | \$672,482 | \$211,629 |

| | | | | | | | | |
|-----------------------------|----------------|--|----------------|-------------|-----------------|----------------|------------------|------------------|
| Expenses | | | | | | | | |
| Direct | \$2,073 | | \$4,600 | \$80 | \$15,622 | \$2,139 | \$388,127 | \$211,629 |
| Indirect | 26 | | 4,920 | | 11,055 | | 284,355 | |
| Undergraduate Student Aid | | | 2,649 | | 4,695 | | 112,623 | |
| Facilities Improvement Fund | 14 | | 233 | | 554 | | 14,909 | |
| Other Indirect Expenses | 12 | | 2,038 | | 5,806 | | 156,823 | |
| TOTAL EXPENSES | \$2,099 | | \$9,520 | \$80 | \$26,677 | \$2,139 | \$672,482 | \$211,629 |

Definitions:

Direct Revenues and Direct Expenses in Revenue Centers include all categories displayed in the Summary of Budgeted Operating Revenues and Expenses.

Participation is a 5% tax on gross tuition revenue, recovery of indirect costs, sales and service and other sources.

Subvention is allocated from centrally controlled funds to support university priorities.

Academic Initiatives is funding for specific activities for a limited time period.

Indirect Revenues are the sum of Participation, Subvention and Academic Initiatives.

Indirect Expenses are the sum of net budgets in all administrative centers (see Individual Administrative Centers 2002-03 Budget by Presidential and Senior Vice Presidential Responsibility Area). Administrative center budgets are allocated to revenue centers according to various methodologies.

Centrally administered Undergraduate Student Aid is shown as a component of Indirect Expenses and is charged to revenue centers as a pre-determined percentage of undergraduate tuition.

Facilities Improvement Fund represents a portion of tuition (net of student aid) which is set aside for major facilities improvements in classrooms, teaching laboratories and residence halls.

2003 health sciences schools and health care services

INDIVIDUAL REVENUE CENTER SUMMARY | 2002-03 BUDGET | in thousands

| | School of Dentistry | | Independent Health Professions* | | Keck School of Medicine | | School of Pharmacy | |
|-----------------------|---------------------|-----------------|---------------------------------|----------------|-------------------------|------------------|--------------------|----------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$43,013 | \$10,707 | \$17,066 | \$1,560 | \$89,353 | \$128,146 | \$34,530 | \$7,289 |
| Indirect | (1,116) | | (850) | | 2,105 | | (1,693) | |
| Participation | (2,116) | | (850) | | (4,166) | | (1,693) | |
| Subvention | 1,000 | | | | 6,100 | | | |
| Academic Initiatives | | | | | 171 | | | |
| TOTAL REVENUES | \$41,897 | \$10,707 | \$16,216 | \$1,560 | \$91,458 | \$128,146 | \$32,837 | \$7,289 |

| | | | | | | | | |
|-----------------------------|-----------------|-----------------|-----------------|----------------|-----------------|------------------|-----------------|----------------|
| Expenses | | | | | | | | |
| Direct | \$30,200 | \$10,707 | \$11,092 | \$1,560 | \$59,299 | \$128,146 | \$25,811 | \$7,289 |
| Indirect | 11,697 | | 5,124 | | 32,159 | | 7,026 | |
| Undergraduate Student Aid | 813 | | 1,269 | | 584 | | | |
| Facilities Improvement Fund | 909 | | 455 | | 932 | | 587 | |
| Other Indirect Expenses | 9,975 | | 3,400 | | 30,643 | | 6,439 | |
| TOTAL EXPENSES | \$41,897 | \$10,707 | \$16,216 | \$1,560 | \$91,458 | \$128,146 | \$32,837 | \$7,289 |

| | Total Health Sciences Schools | | Dentistry Health Care | | Independent Health Professions Health Care* | | Medicine Health Care | |
|-----------------------|-------------------------------|------------------|-----------------------|------------|---|------------|----------------------|------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$183,962 | \$147,702 | \$5,148 | | \$2,321 | | \$131,000 | |
| Indirect | (1,554) | | | | | | | |
| Participation | (8,825) | | | | | | | |
| Subvention | 7,100 | | | | | | | |
| Academic Initiatives | 171 | | | | | | | |
| TOTAL REVENUES | \$182,408 | \$147,702 | \$5,148 | | \$2,321 | | \$131,000 | |

| | | | | | | | | |
|-----------------------------|------------------|------------------|----------------|--|----------------|--|------------------|--|
| Expenses | | | | | | | | |
| Direct | \$126,402 | \$147,702 | \$5,124 | | \$2,310 | | \$127,554 | |
| Indirect | 56,006 | | 24 | | 11 | | 3,446 | |
| Undergraduate Student Aid | 2,666 | | | | | | | |
| Facilities Improvement Fund | 2,883 | | | | | | | |
| Other Indirect Expenses | 50,457 | | 24 | | 11 | | 3,446 | |
| TOTAL EXPENSES | \$182,408 | \$147,702 | \$5,148 | | \$2,321 | | \$131,000 | |

| | Norris Cancer Hospital | | Pharmacy Health Care | | Total Health Care Services | |
|-----------------------|------------------------|------------|----------------------|------------|----------------------------|------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | |
| Direct | \$387 | | \$3,429 | | \$142,285 | |
| Indirect | | | | | | |
| Participation | | | | | | |
| Subvention | | | | | | |
| Academic Initiatives | | | | | | |
| TOTAL REVENUES | \$387 | | \$3,429 | | \$142,285 | |

| | | | | | | |
|-----------------------------|--------------|--|----------------|--|------------------|--|
| Expenses | | | | | | |
| Direct | | | \$3,388 | | \$138,376 | |
| Indirect | \$387 | | 41 | | 3,909 | |
| Undergraduate Student Aid | | | | | | |
| Facilities Improvement Fund | | | | | | |
| Other Indirect Expenses | 387 | | 41 | | 3,909 | |
| TOTAL EXPENSES | \$387 | | \$3,429 | | \$142,285 | |

*Includes the departments of biokinesiology & physical therapy, nursing, and occupational science & occupational therapy

2003 auxiliaries and athletics

INDIVIDUAL REVENUE CENTER SUMMARY | 2002-03 BUDGET | in thousands

| | Animal Resources | | Faculty Center | | Hospitality Services | | Housing and Residence Halls | |
|-----------------------|------------------|------------|----------------|------------|----------------------|------------|-----------------------------|------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$212 | | \$197 | | \$24,458 | | \$33,280 | |
| Indirect | | | | | | | (3,140) | |
| Participation | | | | | | | | |
| Subvention | | | | | | | (3,140) | |
| Academic Initiatives | | | | | | | | |
| TOTAL REVENUES | \$212 | | \$197 | | \$24,458 | | \$30,140 | |

| | | | | | | | | |
|-----------------------------|--------------|--|--------------|--|-----------------|--|-----------------|--|
| Expenses | | | | | | | | |
| Direct | (\$427) | | \$7 | | \$22,763 | | \$28,162 | |
| Indirect | 639 | | 190 | | 1,695 | | 1,978 | |
| Undergraduate Student Aid | | | | | | | | |
| Facilities Improvement Fund | | | | | | | | |
| Other Indirect Expenses | 639 | | 190 | | 1,695 | | 1,978 | |
| TOTAL EXPENSES | \$212 | | \$197 | | \$24,458 | | \$30,140 | |

| | Intercollegiate Athletics | | KUSC | | Student Health and Counseling Services | | Transportation Services | |
|-----------------------|---------------------------|----------------|----------------|--------------|--|------------|-------------------------|------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$34,136 | \$2,817 | \$4,782 | \$549 | \$19,339 | | \$12,836 | |
| Indirect | 1,000 | | | | | | | |
| Participation | | | | | | | | |
| Subvention | 1,000 | | | | | | | |
| Academic Initiatives | | | | | | | | |
| TOTAL REVENUES | \$35,136 | \$2,817 | \$4,782 | \$549 | \$19,339 | | \$12,836 | |

| | | | | | | | | |
|-----------------------------|-----------------|----------------|----------------|--------------|-----------------|--|-----------------|--|
| Expenses | | | | | | | | |
| Direct | \$30,553 | \$2,817 | \$4,340 | \$549 | \$17,941 | | \$10,194 | |
| Indirect | 4,583 | | 442 | | 1,398 | | 2,642 | |
| Undergraduate Student Aid | | | | | | | | |
| Facilities Improvement Fund | | | | | | | | |
| Other Indirect Expenses | 4,583 | | 442 | | 1,398 | | 2,642 | |
| TOTAL EXPENSES | \$35,136 | \$2,817 | \$4,782 | \$549 | \$19,339 | | \$12,836 | |

| | University Bookstores | | University Radisson Hotel | | University Village | | Total Auxiliaries and Athletics | |
|-----------------------|-----------------------|------------|---------------------------|------------|--------------------|------------|---------------------------------|----------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | | | |
| Direct | \$34,770 | | \$6,611 | | \$2,999 | | \$173,620 | \$3,366 |
| Indirect | | | | | | | (2,140) | |
| Participation | | | | | | | | |
| Subvention | | | | | | | (2,140) | |
| Academic Initiatives | | | | | | | | |
| TOTAL REVENUES | \$34,770 | | \$6,611 | | \$2,999 | | \$171,480 | \$3,366 |

| | | | | | | | | |
|-----------------------------|-----------------|--|----------------|--|----------------|--|------------------|----------------|
| Expenses | | | | | | | | |
| Direct | \$33,042 | | \$6,611 | | \$2,999 | | \$156,185 | \$3,366 |
| Indirect | 1,728 | | | | | | 15,295 | |
| Undergraduate Student Aid | | | | | | | | |
| Facilities Improvement Fund | | | | | | | | |
| Other Indirect Expenses | 1,728 | | | | | | 15,295 | |
| TOTAL EXPENSES | \$34,770 | | \$6,611 | | \$2,999 | | \$171,480 | \$3,366 |

2003 classification by center

2002-03 BUDGET | in thousands

| | Colleges, Schools, Centers and Institutes | | Health Sciences Schools | | Health Care Services | |
|-----------------------------|---|------------------|-------------------------|------------------|----------------------|------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | |
| Direct | \$682,269 | \$211,629 | \$183,962 | \$147,702 | \$142,285 | |
| Indirect | (9,787) | | (1,554) | | | |
| <i>Participation</i> | (32,018) | | (8,825) | | | |
| <i>Subvention</i> | 9,531 | | 7,100 | | | |
| <i>Academic Initiatives</i> | 12,700 | | 171 | | | |
| TOTAL REVENUES | \$672,482 | \$211,629 | \$182,408 | \$147,702 | \$142,285 | |

| | | | | | | |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|--|
| Expenses | | | | | | |
| Direct | \$388,127 | \$211,629 | \$126,402 | \$147,702 | \$138,376 | |
| Indirect | 284,355 | | 56,006 | | 3,909 | |
| <i>Undergraduate Student Aid</i> | 112,623 | | 2,666 | | | |
| <i>Facilities Improvement Fund</i> | 14,909 | | 2,883 | | | |
| <i>Other Indirect Expenses</i> | 156,823 | | 50,457 | | 3,909 | |
| TOTAL EXPENSES | \$672,482 | \$211,629 | \$182,408 | \$147,702 | \$142,285 | |

| | Auxiliaries and Athletics | | Total Revenue Centers | | Administrative Centers | |
|-----------------------------|---------------------------|----------------|-----------------------|------------------|------------------------|-----------------|
| | Undesignated | Designated | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | | | |
| Direct | \$173,620 | \$3,366 | \$1,182,136 | \$362,697 | \$23,683 | \$12,180 |
| Indirect | (2,140) | | (13,481) | | 5,385 | |
| <i>Participation</i> | | | (40,843) | | | |
| <i>Subvention</i> | (2,140) | | 14,491 | | 3,140 | |
| <i>Academic Initiatives</i> | | | 12,871 | | 2,245 | |
| TOTAL REVENUES | \$171,480 | \$3,366 | \$1,168,655 | \$362,697 | \$29,068 | \$12,180 |

| | | | | | | |
|------------------------------------|------------------|----------------|--------------------|------------------|-----------------|-----------------|
| Expenses | | | | | | |
| Direct | \$156,185 | \$3,366 | \$809,090 | \$362,697 | \$388,633 | \$12,180 |
| Indirect | 15,295 | | 359,565 | | (359,565) | |
| <i>Undergraduate Student Aid</i> | | | 115,289 | | (115,289) | |
| <i>Facilities Improvement Fund</i> | | | 17,792 | | (17,792) | |
| <i>Other Indirect Expenses</i> | 15,295 | | 226,484 | | (226,484) | |
| TOTAL EXPENSES | \$171,480 | \$3,366 | \$1,168,655 | \$362,697 | \$29,068 | \$12,180 |

| | Subvention Pool | | Total University | |
|-----------------------------|-----------------|------------|--------------------|------------------|
| | Undesignated | Designated | Undesignated | Designated |
| Revenues | | | | |
| Direct | \$12,649 | | \$1,218,468 | \$374,877 |
| Indirect | 8,096 | | | |
| <i>Participation</i> | 40,843 | | | |
| <i>Subvention</i> | (17,631) | | | |
| <i>Academic Initiatives</i> | (15,116) | | | |
| TOTAL REVENUES | \$20,745 | | \$1,218,468 | \$374,877 |

| | | | | |
|------------------------------------|-----------------|--|--------------------|------------------|
| Expenses | | | | |
| Direct | \$20,745 | | \$1,218,468 | \$374,877 |
| Indirect | | | | |
| <i>Undergraduate Student Aid</i> | | | | |
| <i>Facilities Improvement Fund</i> | | | | |
| <i>Other Indirect Expenses</i> | | | | |
| TOTAL EXPENSES | \$20,745 | | \$1,218,468 | \$374,877 |

2003 individual administrative centers by presidential and senior vice presidential responsibility area

2002-03 BUDGET | in thousands

| | Net Budget | Fringe Benefits |
|---|------------------|-----------------|
| President: | | |
| President's Office | \$2,525 | — |
| Provost and Senior Vice President, Academic Affairs: | | |
| Academic Senate | \$176 | |
| Academic Services | 2,318 | |
| Enrollment Services | 8,815 | |
| Emeriti Center | 207 | |
| Evaluation Services | 97 | |
| Faculty Sabbaticals | | \$7,344 |
| Graduate Assistant Tuition Remission | | 22,083 |
| Graduate Fellowships | 940 | |
| Graduate School | 950 | |
| Health Sciences Libraries | 4,628 | |
| International Offices | 678 | |
| Provost's Office | 5,577 | |
| Student Affairs | 12,061 | |
| Undergraduate Student Aid | 115,287 | |
| University Art Galleries | 461 | |
| Vice President for Health Affairs | 1,066 | |
| TOTAL | \$153,261 | \$29,427 |

| | | |
|---|-----------------|----------|
| Academic Affairs and Administration: | | |
| Administrative Information Systems | \$11,428 | |
| Information Services Division | 39,322 | |
| TOTAL | \$50,750 | — |

| | Net Budget | Fringe Benefits |
|---|------------------|------------------|
| Senior Vice President, Administration: | | |
| Administrative Operations | \$2,563 | \$3,057 |
| Budget and Planning | 1,387 | 751 |
| Career and Protective Services | 18,915 | 8,819 |
| Comptroller | 4,150 | 172,253 |
| Contracts and Grants | 2,963 | |
| Corporate Expense | 17,876 | |
| Facilities Improvement | 17,793 | |
| Facilities Management Services | 20,005 | |
| Facilities Planning | 883 | |
| Faculty and Staff Counseling | | 311 |
| Financial and Business Services | 11,527 | |
| Internal Audit and Compliance | 2,091 | |
| Major Maintenance and Renovations | 8,654 | |
| Risk Pool | 3,525 | |
| Senior Vice President's Office | 1,888 | 926 |
| Tram, Escort Services and Rideshare | 2,598 | |
| Treasurer | 2,039 | |
| University Counsel | 8,100 | |
| University Professional Memberships | 435 | |
| Utilities | 8,506 | |
| TOTAL | \$135,898 | \$186,117 |

| | | |
|---|---------|---|
| Senior Vice President, University Advancement: | | |
| Senior Vice President's Office | \$7,481 | — |

| | | |
|---|----------------|----------|
| Senior Vice President, University Relations: | | |
| Alumni Association | \$1,447 | |
| University Relations | 8,203 | |
| TOTAL | \$9,650 | — |

| | | |
|---------------------------|------------------|-------------|
| Fringe Benefit Recoveries | | (\$215,544) |
| GRAND TOTAL | \$359,565 | — |

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role and mission

OF THE UNIVERSITY OF SOUTHERN CALIFORNIA

The central mission of the University of Southern California is the development of human beings and society as a whole through the cultivation and enrichment of the human mind and spirit. The principal means by which our mission is accomplished are teaching, research, artistic creation, professional practice and selected forms of public service.

Our first priority as faculty and staff is the education of our students, from freshmen to postdoctorals, through a broad array of academic, professional, extracurricular and athletic programs of the first rank. The integration of liberal and professional learning is one of USC's special strengths. We strive constantly for excellence in teaching knowledge and skills to our students, while at the same time helping them to acquire wisdom and insight, love of truth and beauty, moral discernment, understanding of self, and respect and appreciation for others.

Research of the highest quality by our faculty and students is fundamental to our mission. USC is one of a very small number of premier academic institutions in which research and teaching are inextricably intertwined, and on which the nation depends for a steady stream of new knowledge, art and technology. Our faculty are not simply teachers of the works of others, but active contributors to what is taught, thought and practiced throughout the world.

USC is pluralistic, welcoming outstanding men and women of every race, creed and background. We are a global institution in a global center, attracting more international students over the years than any other American university. And we are private, unfettered by political control, strongly committed to academic freedom, and proud of our entrepreneurial heritage.

An extraordinary closeness and willingness to help one another are evident among USC students, alumni, faculty, and staff; indeed, for those within its compass the Trojan Family is a genuinely supportive community. Alumni, trustees, volunteers and friends of USC are essential to this family tradition, providing generous financial support, participating in university governance, and assisting students at every turn.

In our surrounding neighborhoods and around the globe, USC provides public leadership and public service in such diverse fields as health care, economic development, social welfare, scientific research, public policy and the arts. We also serve the public interest by being the largest private employer in the city of Los Angeles, as well as the city's largest export industry in the private sector.

USC has played a major role in the development of Southern California for more than a century, and plays an increasingly important role in the development of the nation and the world. We expect to continue to play these roles for many centuries to come. Thus our planning, commitments and fiscal policies are directed toward building quality and excellence in the long term.

*Adopted by the USC Board of Trustees,
February 3, 1993*

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