



The University of Southern California Financial Report 2003

**Highlights of the University**

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**On the Cover** Jessica Peraza grew up in the USC neighborhood but, in a way, she grew up at USC. As a Neighborhood Academic Initiative scholar, Jessica took college prep courses on campus, graduated from USC with a degree in computer science and is now a software engineer at Lockheed Martin. You can read more about USC's Neighborhood Academic Initiative in the winter 2003 issue of *USC Trojan Family Magazine*.

	June 30 2003	June 30 2002
<b>Financial</b> (in thousands)		
Total revenues	\$1,568,382	\$1,480,363
Total cash gifts and equipment gifts	\$383,916	\$383,916
Capital expenditures	\$148,694	\$111,235
Total assets at year end	\$4,002,727	\$3,713,915
Total debt at year end	\$425,814	\$226,473
Increase in net assets	\$51,387	\$72,790
Market value of endowment	\$2,113,666	\$2,130,977
Executed contracts, grants, subcontracts and cooperative agreements	\$712,259	\$591,909
Property, plant and equipment, net	\$880,179	\$793,809
<b>Net Asset Balances:</b>		
Unrestricted	\$2,045,303	\$2,011,776
Temporarily restricted	\$139,868	\$156,094
Permanently restricted	\$985,855	\$951,769

**Students**

<b>Enrollment (head count, autumn):</b>		
Undergraduate students	16,145	16,037
Graduate and professional students	14,537	13,776
<b>Degrees conferred:</b>		
Bachelor degrees	4,053	3,896
Advanced	4,647	4,197
Certificates	177	168
Annual tuition rate	\$26,464	\$25,060

**Faculty and Staff**

Faculty	4,160	4,001
Staff	7,543	7,186

## Report of Independent Auditors

### 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, 2003, 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 2002 financial statements; and in our report dated September 6, 2002, 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 12, 2003

## Consolidated Balance Sheet

in thousands

	June 30 2003	June 30 2002
	A	B
<b>Assets</b>		
1 Cash and cash equivalents	\$373,829	\$193,793
2 Accounts receivable, [see Note 3]	89,078	86,978
3 Notes receivable, net of allowance for doubtful accounts, \$6,792 (2003), \$8,364 (2002)	90,988	96,011
4 Pledges receivable, [see Note 9]	126,547	141,189
5 Investments, [see Note 4]	2,374,943	2,353,572
6 Inventories, prepaid expenses and other assets	67,163	48,563
7 Property, plant and equipment, net, [see Note 5]	880,179	793,809
8 <b>TOTAL ASSETS</b>	<b>\$4,002,727</b>	<b>\$3,713,915</b>
<b>Liabilities</b>		
9 Accounts payable	\$54,448	\$51,091
10 Accrued liabilities	61,712	51,272
11 Refundable advances	19,265	21,474
12 Current portion of long-term debt	6,778	4,507
13 Deposits and deferred revenue	48,227	40,244
14 Post-retirement health benefit obligation, [see Note 14]	2,787	3,324
15 Actuarial liability for annuities payable	144,849	129,705
16 Federal student loan funds	62,051	60,880
17 Long-term debt, [see Note 6]	419,036	221,966
18 Other	12,548	9,813
19 <b>TOTAL LIABILITIES</b>	<b>831,701</b>	<b>594,276</b>
<b>Net Assets</b>		
20 Unrestricted	2,045,303	2,011,776
21 Temporarily restricted	139,868	156,094
22 Permanently restricted	985,855	951,769
23 <b>TOTAL NET ASSETS</b>	<b>3,171,026</b>	<b>3,119,639</b>
24 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$4,002,727</b>	<b>\$3,713,915</b>

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, 2002

	Unrestricted Net Assets				Year Ended June 30, 2003							Year Ended June 30, 2002
	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
<b>Revenues</b>												
1 Student tuition and fees	\$714,415							\$714,415			\$714,415	\$666,067
2 Less financial aid	(213,838)							(213,838)			(213,838)	(194,233)
3 Net student tuition and fees	500,577							500,577			500,577	471,834
4 Endowment income	22,494		\$17,623					40,117		\$153	40,270	45,628
5 Investment and other income	4,398		1,729	\$17,865				23,433	\$2	328	23,763	22,287
6 Net appreciation (depreciation) in fair value of investments			280	312				(1,015)	3,848	272	3,105	(153,327)
7 Government contracts and grants			252,235					252,235			252,235	225,779
8 Recovery of indirect costs	94,670							94,670			94,670	83,591
9 Gifts and pledges	25,850		116,558	19,669	\$6,659			168,736	20,715	31,148	220,599	349,660
10 Sales and service	23,886							23,886			23,886	22,678
11 Auxiliary enterprises	162,547							162,547			162,547	146,222
12 Professional Services Agreements		\$119,850						119,850			119,850	118,020
13 Clinical practices		33,970						33,970			33,970	37,387
14 Kenneth Norris Jr. Cancer Hospital		84,538						84,538			84,538	81,683
15 Loss on the disposal/sale of plant assets								(2,194)			(2,194)	(2,311)
16 Other	20,607							20,607			20,607	20,808
17 Present value adjustment to annuities payable									(4,303)	(5,738)	(10,041)	(5,863)
18 Net assets released from restrictions			19,141	5,798		3,626		28,565	(36,488)	7,923		
19 <b>TOTAL REVENUES</b>	<b>855,029</b>	<b>238,358</b>	<b>407,566</b>	<b>43,644</b>	<b>4,465</b>	<b>2,019</b>	<b>(559)</b>	<b>1,550,522</b>	<b>(16,226)</b>	<b>34,086</b>	<b>1,568,382</b>	<b>1,464,076</b>
<b>Expenses</b>												
20 Educational and general activities	824,676		371,751		497			1,196,924			1,196,924	1,094,434
21 Health care services		233,218						233,218			233,218	216,109
22 Depreciation		5,049			67,406			72,455			72,455	68,278
23 Interest on indebtedness		1,112		13,286				14,398			14,398	12,465
24 <b>TOTAL EXPENSES</b>	<b>824,676</b>	<b>239,379</b>	<b>371,751</b>	<b>13,286</b>	<b>67,903</b>			<b>1,516,995</b>			<b>1,516,995</b>	<b>1,391,286</b>
<b>Transfers within Unrestricted Net Assets:</b>												
25 Mandatory transfers for external debt service	(26,072)			26,072								
26 Student loan matching requirement	(428)						428					
27 Unrestricted gifts designated for long-term investment	(3,661)					3,661						
28 Internal loan repayments	(19,759)		(59,324)	79,083								
29 Accumulated gains used for spending rule	35,863		30,162			(66,025)						
30 Designated support for student aid	35,575		(35,575)									
31 Other miscellaneous nonmandatory transfers	(33,428)	8,379	85,117	(67,160)		6,299	793					
32 Property, plant and equipment acquisitions	(17,758)		(17,928)	(140,746)	176,432							
33 <b>Increase (Decrease) in Net Assets</b>	<b>685</b>	<b>7,358</b>	<b>38,267</b>	<b>(72,393)</b>	<b>112,994</b>	<b>(54,046)</b>	<b>662</b>	<b>33,527</b>	<b>(16,226)</b>	<b>34,086</b>	<b>51,387</b>	<b>72,790</b>
34 Transfer operating surplus to departmental net assets	(685)		685									
35 <b>Beginning Net Assets</b>		<b>18,670</b>	<b>235,527</b>	<b>173,589</b>	<b>284,498</b>	<b>1,301,696</b>	<b>(2,204)</b>	<b>2,011,776</b>	<b>156,094</b>	<b>951,769</b>	<b>3,119,639</b>	<b>3,046,849</b>
36 <b>ENDING NET ASSETS</b>		<b>\$26,028</b>	<b>\$274,479</b>	<b>\$101,196</b>	<b>\$397,492</b>	<b>\$1,247,650</b>	<b>(\$1,542)</b>	<b>\$2,045,303</b>	<b>\$139,868</b>	<b>\$985,855</b>	<b>\$3,171,026</b>	<b>\$3,119,639</b>
<b>Nature of specific net assets:</b>												
37 Internally designated		(\$36,855)	\$26,177		(\$3,698)		(\$5,817)	(\$20,193)			(\$20,193)	(\$21,536)
38 Gift and departmental			159,136	\$37,810			4,275	201,221			201,221	200,207
39 Externally restricted									\$6,275	\$29,990	36,265	40,813
40 Pledges									98,603	27,944	126,547	141,191
41 Kenneth Norris Jr. Cancer Hospital		62,883						62,883			62,883	59,418
42 Unexpended endowment income			89,166					89,166			89,166	71,743
43 Annuity and living trusts									34,990	61,905	96,895	96,578
44 True endowment										866,016	866,016	829,281
45 Funds functioning as endowment						\$1,247,650		1,247,650			1,247,650	1,301,696
46 Debt service funds				63,386				63,386			63,386	112,550
47 Invested in plant					401,190			401,190			401,190	287,698
48		<b>\$26,028</b>	<b>\$274,479</b>	<b>\$101,196</b>	<b>\$397,492</b>	<b>\$1,247,650</b>	<b>(\$1,542)</b>	<b>\$2,045,303</b>	<b>\$139,868</b>	<b>\$985,855</b>	<b>\$3,171,026</b>	<b>\$3,119,639</b>

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, 2002

	Academic, Health Care and Student Services					Support Services					Year Ended June 30, 2003	Year Ended June 30, 2002
	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		
1 Compensation	\$297,021	\$126,713	\$11,312	\$116,519	\$18,195	\$25,799	\$23,925	\$39,914	\$11,524	\$36,880	\$707,802	\$660,453
2 Fringe benefits	76,599	30,168	3,442	35,273	5,527	8,315	7,816	13,172	3,658	11,054	195,024	186,222
3 Materials and supplies	100,585	82,627	7,119	32,753	10,044	2,546	7,840	12,126	6,588	36,659	298,887	248,478
4 Cost of goods sold	11,522	13,704			9	217		2,247	36	42,395	70,130	66,748
5 Utilities				980		17,693					18,673	17,646
6 Travel	13,917	6,948	191	123	1,211	36	526	291	324	2,204	25,771	24,253
7 Telephone				1,152		7,907					9,059	8,741
8 Other	36,571			6,498	2,054		1,827	4,493	363	13,070	64,876	58,642
Kenneth Norris Jr. Cancer Hospital and												
9 USC Care purchased services				39,920							39,920	39,360
10	536,215	260,160	22,064	233,218	37,040	62,513	41,934	72,243	22,493	142,262	1,430,142	1,310,543
Allocations:												
11 Depreciation	26,079	12,612	4,530	5,049	3,229		1,449	5,736	155	13,616	72,455	68,278
12 Interest	1,908			1,112	123	2,024	19	6,575		2,637	14,398	12,465
13 Plant operations and maintenance	32,037	6,474	683		3,818	(64,537)	980	7,026	122	13,397		
14	\$596,239	\$279,246	\$27,277	\$239,379	\$44,210		\$44,382	\$91,580	\$22,770	\$171,912	\$1,516,995	\$1,391,286

The accompanying notes are an integral part of this statement.

## Consolidated Statement of Cash Flows

in thousands

	Year Ended June 30, 2003	Year Ended June 30, 2002
	A	B
<b>Cash Flows from Operating Activities</b>		
1 <b>Change in Net Assets</b>	<b>\$51,387</b>	<b>\$72,790</b>
Adjustments to reconcile change in net assets to net cash provided by Operating activities:		
2 Depreciation	72,455	68,278
3 Loss on the disposal/sale of plant assets	(3,472)	1,887
4 Equipment gifts-in-kind	(6,659)	(17,047)
5 Present value adjustment to annuities payable	10,392	6,123
6 (Increase) decrease in accounts receivable	(2,100)	7,257
7 Decrease in pledges receivable	14,642	35,698
8 Increase in inventories, prepaid expenses and other assets	(18,600)	(21,383)
9 Increase in accounts payable	3,357	186
10 Increase (decrease) in accrued liabilities	10,440	(488)
11 (Decrease) increase in refundable advances	(2,209)	4,778
12 Increase in deferred revenue	7,983	1,837
13 Decrease in post-retirement health benefit obligation	(537)	(344)
14 Increase (decrease) in other	2,735	(379)
15 Contributions restricted for permanent investment and property, plant and equipment	(61,618)	(191,574)
16 Net realized loss (gain) on sale of investments	27,359	(90,193)
17 Net unrealized (appreciation) depreciation in investments	(30,661)	243,643
18 Net cash provided by operating activities	<b>74,894</b>	<b>121,069</b>
<b>Cash Flows from Investing Activities</b>		
19 Proceeds from note collections and sale of notes	19,547	16,960
20 Notes issued	(14,524)	(11,446)
21 Proceeds from sale of investments	2,476,323	2,833,234
22 Purchase of investments	(2,494,392)	(3,039,392)
23 Purchase of property, plant and equipment, net	(148,694)	(111,235)
24 Net cash used by investing activities	<b>(161,740)</b>	<b>(311,879)</b>
<b>Cash Flows from Financing Activities</b>		
Contributions restricted for permanent investment:		
25 Endowment	28,797	162,028
26 Plant	30,013	30,399
27 Trusts and other	2,808	(853)
28 Repayment of long-term debt	(2,321)	(4,449)
29 Increase in long-term debt	201,662	
30 Increase (decrease) in federal student loan funds	1,171	(532)
31 Investment income and (losses) on annuities payable	(320)	(8,143)
32 Payments on annuities payable	(13,216)	(13,825)
33 Increase to annuities payable resulting from new gifts	18,288	11,756
34 Net cash provided by financing activities	<b>266,882</b>	<b>176,381</b>
35 <b>Net (decrease) increase in cash and cash equivalents</b>	<b>180,036</b>	<b>(14,429)</b>
36 <b>Cash and cash equivalents at beginning of year</b>	<b>193,793</b>	<b>208,222</b>
37 <b>Cash and cash equivalents at end of year</b>	<b>\$373,829</b>	<b>\$193,793</b>

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 or component lives of the assets (equipment and library books useful lives ranging from 5 to 10 years and buildings component lives ranging from 5 to 50 years). 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, 2003, included in the net appreciation in fair value of investments of \$3,105,000 on the Consolidated Statement of Activities is \$35,100,000 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. The Office of Management and Budget, Circular A-21, establishes principles for determining such reimbursable costs, requires conformity of the lives and methods used for federal cost reimbursement accounting and financial reporting purposes. The university's policies and procedures are in conformity with these principles.

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.

## Notes to Consolidated Financial Statements

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, 2002 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 2003, the Hospital entered into a five-year agreement with an unaffiliated third party (the "Manager") to manage the day-to-day operations of the Hospital.

In September 2002 the university entered into an Asset Purchase Agreement (the "Agreement") where the Manager would acquire the Hospital operations and certain tangible assets. In May 2003 the Attorney General for the State of California provided conditional approval of the transaction and further clarified the conditional approval in August 2003. The Agreement is still subject to approval by the boards of the university, Hospital, and the Manager as well as various regulatory agencies. It is expected that upon completion of this transaction unrestricted net assets of the university will decrease by approximately \$20,000,000.

## Notes to Consolidated Financial Statements

**NOTE 3***Accounts receivable (in thousands):*

U.S. Government, net of allowance for doubtful accounts of \$1,331	\$14,744
Student and other, net of allowance for doubtful accounts of \$5,355	31,442
Patient care and practice plans, net of allowance for doubtful accounts and contractual adjustments of \$70,716	42,892
	<u>\$89,078</u>

**NOTE 4***Investments (in thousands):*

	Cost	Market
Stocks	\$973,550	\$1,062,840
Bonds:		
U.S. Government	137,943	148,782
Corporate	276,217	288,415
International investments	327,366	374,319
Venture capital	260,990	187,323
Assets held by other trustees	198,615	207,462
Mortgages, notes and other receivables	2,298	2,339
Real estate and other	93,852	103,463
<b>TOTAL</b>	<u>\$2,270,831</u>	<u>\$2,374,943</u>

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

Land and improvements	\$92,093
Building and improvements	978,657
Equipment	286,069
Library books and collections	151,050
Construction-in-progress	60,808
	<u>1,568,677</u>
Less: Accumulated depreciation	737,311
	<u>831,366</u>

Kenneth Norris Jr. Cancer Hospital	102,879
Less: Accumulated depreciation	54,066
	<u>48,813</u>
	<u>\$880,179</u>

## Notes to Consolidated Financial Statements

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

	Interest %	Maturity	
<i>California Educational Facilities Authority (CEFA) Revenue Bonds and Notes:</i>			
Series 1993A	6.00-6.10	2004-2005	\$2,180
Series 1993B	5.20-5.80	2004-2016	30,690
Premium			36
Series 1997A	5.50-5.70	2004-2016	35,735
Discount			(236)
Series 1997C	5.125	2029	50,000
Discount			(1,394)
Series 1998A	5.00	2029	30,360
Series 1999	5.50	2028	60,000
Premium			1,083
Series 2003A	4.75-5.00	2024, 2034	150,000
Premium			2,154
Series 2003C	1.05*	2034	50,000
<i>University of Southern California Bonds</i>			
Series 1998	5.26-6.26	2004-2019	13,585
Discount			(41)
<i>Mortgages and other</i>	Various	2004-2005	1,662
			<u>425,814</u>
Less current portion of long-term debt			6,778
			<u>\$419,036</u>

\*This note bears interest at a variable rate, which is currently 1.05% and will reset on March 19, 2004.

Principal payment requirements relating to bonds, notes and mortgages payable, after giving effect to refunding, for the next five fiscal years are approximately: 2004 \$6,778,000; 2005 \$5,037,000; 2006 \$4,142,000; 2007 \$4,377,000; 2008 \$4,629,000.

Interest payments for fiscal year 2003 were \$12,204,000.

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

On July 8, 2003 the university issued \$12,795,000 of CEFA Series 2003B bonds. These proceeds were transferred into a refunding escrow deposit fund, which was used to call and refund portions of CEFA Series 1993 bonds and CEFA Series 1993B bonds. CEFA Series 2003B bonds have a coupon rate of 5.00% and mature serially from 2004 to 2015.

## 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, 2003 consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$118,904	\$52,945	\$171,849
Endowed scholarships	13,006	5,791	18,797
External financial aid	16,047	7,145	23,192
	<u>\$147,957</u>	<u>\$65,881</u>	<u>\$213,838</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	\$782,614	\$977,945	\$7,123	\$1,767,682
Non-pooled	83,402	262,582		345,984
	<u>\$866,016</u>	<u>\$1,240,527</u>	<u>\$7,123</u>	<u>\$2,113,666</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 (50%), international investments (21%), venture capital (11%) and other investments (1%). 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, 2003 was \$411.08.

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 2003 fiscal year, the Board of Trustees approved current distribution of 102.55% 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, \$22.88 was distributed to each time-weighted unit for a total spending rule allocation of \$97,702,000. Investment income amounting to \$742 per time weighted unit was earned, totaling \$31,677,000, and \$66,025,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2003 represent 5.2% of the market value of the endowment pool at June 30, 2003. Total earnings allocated for spending in fiscal year 2003 represent 4.7% of the market value of total endowment at June 30, 2003.

As a result of market declines, the fair market value of certain donor-restricted endowments are less than the historical cost value. These unrealized losses have been recorded as reductions in unrestricted net assets.

Approximately \$19,659,000 of the university's unrestricted long-term investments have been designated to support student loans.

## Notes to Consolidated Financial Statements

**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	\$15,910
Between one year and five years	48,910
More than five years	101,338
Less: discount of \$32,082	
and allowance of \$7,529	(39,611)
	<u>\$126,547</u>

Pledges receivable at June 30, 2003 have the following restrictions (in thousands):

Endowment for departmental programs and activities	\$25,783
Endowment for scholarship	2,567
Building construction	21,538
Departmental programs and activities	76,659
	<u>\$126,547</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, 2003 are summarized as follows (in thousands):

Current sponsored awards	\$286,092
Executed grants and contracts for future periods	426,167
	<u>\$712,259</u>

**NOTE 11**

At June 30, 2003, internal loans for capital investment were \$120,698,000 which are repaid through nonmandatory transfers from the operating budget to unexpended plant within unrestricted net assets. The maturity dates range from 2004 to 2028 with various interest rates.

Internal loans maturing within each of the next five fiscal years range from \$9.4 million to \$21.3 million.

**NOTE 12**

Contractual commitments for educational plant amounted to approximately \$53,873,000 at June 30, 2003. 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, AIG SunAmerica, 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 \$49,962,000 during the year ended June 30, 2003.

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, 2003 (in thousands):

Benefit cost	\$6,445
Employer contribution	\$24,700
Benefits paid	\$2,588
Benefit obligation	\$121,590
Fair value of plan assets	111,059
Funded status	(\$10,531)

Items recognized in the consolidated balance sheet:

Prepaid (accrued) benefit cost	\$39,636
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Weighted-average assumptions:	
Discount rate	6.00%
Expected return on plan assets	8.00%
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 five 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, 2003 (in thousands):

Benefit cost	\$62
Employer contributions	\$599
Plan participant contributions	\$0
Benefits paid	\$599
Benefit obligation	\$2,258
Fair value of plan assets	0
Funded status	(\$2,258)

Prepaid/(accrued) benefit cost recognized in the consolidated balance sheet	(\$2,787)
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Weighted-average assumption:	
Discount rate	5.00%

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of postretirement medical benefits for the health maintenance organization and indemnity programs was assumed for 2003. These rates were assumed to decrease gradually to 5.5% by 2006 and remain at that level thereafter.

## Notes to Consolidated Financial Statements

**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 \$436,933,000 at June 30, 2003. 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.

2004 Summary of Budgeted Operating Revenues and Expenses

2003-04 Budget | in thousands

	Undesignated Budget Education and General			Undesignated Budget Health Care Services			Designated Budget			Total Budget		
	2002-03 Budget	2003-04 Budget	Percent Change	2002-03 Budget	2003-04 Budget	Percent Change	2002-03 Budget	2003-04 Budget	Percent Change	2002-03 Budget	2003-04 Budget	Percent Change
<b>Revenues</b>												
Tuition and fees	\$705,161	\$758,825	7.61%							\$705,161	\$758,825	7.61%
Less student aid	(176,659)	(195,727)	10.79%							(200,966)	(221,100)	10.02%
Net tuition and fees	528,502	563,098	6.55%							504,195	537,725	6.65%
Endowment income	49,349	52,170	5.72%							75,892	80,666	6.29%
Investment income	5,660	4,608	(18.59%)							5,660	4,608	(18.59%)
Gifts	17,949	20,233	12.72%							90,863	100,751	10.88%
Contracts and grants – direct										280,664	333,096	18.68%
Recovery of indirect costs:												
Contracts and grants	88,307	104,240	18.04%							88,307	104,240	18.04%
Endowments/Gifts	7,437	8,159	9.71%							7,437	8,159	9.71%
Auxiliary enterprises	157,608	166,358	5.55%	\$137,137	\$138,257	0.82%				294,745	304,615	3.35%
Sales and service, and other sources	44,712	46,051	2.99%	5,148	7,585	47.34%				49,860	53,636	7.57%
<b>TOTAL REVENUES</b>	<b>\$899,524</b>	<b>\$964,917</b>	<b>7.27%</b>	<b>\$142,285</b>	<b>\$145,842</b>	<b>2.50%</b>	<b>\$355,814</b>	<b>\$416,737</b>	<b>17.12%</b>	<b>\$1,397,623</b>	<b>\$1,527,496</b>	<b>9.29%</b>
<b>Expenses</b>												
Compensation:												
Faculty salaries	\$166,381	\$170,589	2.53%	\$76,128	\$77,489	1.79%	\$46,743	\$53,463	14.38%	\$289,252	\$301,541	4.25%
Other salaries and wages	265,947	283,269	6.51%	16,782	17,769	5.88%	100,929	109,277	8.27%	383,658	410,315	6.95%
Employee benefits	137,166	135,139	(1.48%)	27,533	29,261	6.28%	36,495	41,783	14.49%	201,194	206,183	2.48%
<b>TOTAL COMPENSATION</b>	<b>569,494</b>	<b>588,997</b>	<b>3.42%</b>	<b>120,443</b>	<b>124,519</b>	<b>3.38%</b>	<b>184,167</b>	<b>204,523</b>	<b>11.05%</b>	<b>874,104</b>	<b>918,039</b>	<b>5.03%</b>
Current expense	148,481	192,572	29.69%	19,379	18,563	(4.21%)	115,037	141,739	23.21%	282,897	352,874	24.74%
Capital financing	63,423	61,307	(3.34%)		850		140	126	(10.00%)	63,563	62,283	(2.01%)
Professional services	29,265	30,807	5.27%				17,813	22,102	24.08%	47,078	52,909	12.39%
Equipment/library	18,548	19,734	6.39%	601	220	(63.39%)	17,297	21,470	24.13%	36,446	41,424	13.66%
Utilities/telephone	29,419	28,477	(3.20%)							29,419	28,477	(3.20%)
Off-campus facilities	10,116	12,415	22.73%				10,793	13,677	26.72%	20,909	26,092	24.79%
Travel	9,911	10,110	2.01%	20	65	225.00%	9,877	12,269	24.22%	19,808	22,444	13.31%
Rentals and leases	20,867	20,498	(1.77%)	1,842	1,625	(11.78%)	690	831	20.43%	23,399	22,954	(1.90%)
<b>TOTAL EXPENSES</b>	<b>\$899,524</b>	<b>\$964,917</b>	<b>7.27%</b>	<b>\$142,285</b>	<b>\$145,842</b>	<b>2.50%</b>	<b>\$355,814</b>	<b>\$416,737</b>	<b>17.12%</b>	<b>\$1,397,623</b>	<b>\$1,527,496</b>	<b>9.29%</b>

2004 Colleges, Schools, Centers and Institutes

Individual Revenue Center Summary | 2003-04 Budget | in thousands

	Annenberg Center for Communication		Annenberg School for Communication		School of Architecture		School of Cinema-Television	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
<b>Revenues</b>								
Direct	\$7,003	\$2,918	\$24,505	\$8,209	\$9,890	\$2,037	\$28,942	\$6,025
Center	7,072	2,918	31,206	8,209	13,183	2,037	36,738	6,025
UG Student Aid Fund	(64)		(5,992)		(2,967)		(6,869)	
Facilities Improvement Fund	(5)		(709)		(326)		(927)	
Indirect	(14)		953		(561)		(620)	
Participation	(14)		(1,446)		(661)		(1,869)	
Subvention			1,100				300	
Academic Initiatives								
Graduate Programs			1,299		100		949	
<b>TOTAL REVENUES</b>	<b>\$6,989</b>	<b>\$2,918</b>	<b>\$25,458</b>	<b>\$8,209</b>	<b>\$9,329</b>	<b>\$2,037</b>	<b>\$28,322</b>	<b>\$6,025</b>
<b>Expenses</b>								
Direct	\$5,779	\$2,918	\$20,289	\$8,209	\$6,585	\$2,037	\$19,816	\$6,025
Indirect	1,210		5,169		2,744		8,506	
Allocated	1,210		4,746		2,493		7,907	
Usage Based			423		251		599	
<b>TOTAL EXPENSES</b>	<b>\$6,989</b>	<b>\$2,918</b>	<b>\$25,458</b>	<b>\$8,209</b>	<b>\$9,329</b>	<b>\$2,037</b>	<b>\$28,322</b>	<b>\$6,025</b>

	Institute for Creative Technology		Davis School of Gerontology		School of Engineering Academic Programs		School of Engineering Information Sciences Institute	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
<b>Revenues</b>								
Direct	\$3,088	\$19,686	\$3,983	\$7,866	\$66,149	\$41,319	\$8,956	\$66,527
Center	3,088	19,686	4,011	7,866	76,133	41,319	8,956	66,527
UG Student Aid Fund					(8,330)			
Facilities Improvement Fund			(28)		(1,654)			
Indirect	(146)		1,237		16,482		(394)	
Participation	(146)		(138)		(4,034)		(394)	
Subvention			400		2,000			
Academic Initiatives			600		6,700			
Graduate Programs			375		11,816			
<b>TOTAL REVENUES</b>	<b>\$2,942</b>	<b>\$19,686</b>	<b>\$5,220</b>	<b>\$7,866</b>	<b>\$82,631</b>	<b>\$41,319</b>	<b>\$8,562</b>	<b>\$66,527</b>
<b>Expenses</b>								
Direct	\$2,431	\$19,686	\$2,564	\$7,866	\$56,042	\$41,319	\$6,668	\$66,527
Indirect	511		2,656		26,589		1,894	
Allocated	511		2,321		24,318		1,894	
Usage Based			335		2,271			
<b>TOTAL EXPENSES</b>	<b>\$2,942</b>	<b>\$19,686</b>	<b>\$5,220</b>	<b>\$7,866</b>	<b>\$82,631</b>	<b>\$41,319</b>	<b>\$8,562</b>	<b>\$66,527</b>

	School of Fine Arts		Graduate Programs		Gould School of Law		College of Letters, Arts and Sciences	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
<b>Revenues</b>								
Direct	\$5,549	\$528	\$34,004		\$26,433	\$3,777	\$162,873	\$36,613
Center	7,758	528	35,009		27,226	3,777	231,689	36,613
UG Student Aid Fund	(2,022)				(174)		(63,135)	
Facilities Improvement Fund	(187)		(1,005)		(619)		(5,681)	
Indirect	(124)		(33,607)		955		17,463	
Participation	(393)		(1,750)		(1,162)		(12,398)	
Subvention					1,367		2,500	
Academic Initiatives	97		15,000		600		5,705	
Graduate Programs	172		(46,857)		150		21,656	
<b>TOTAL REVENUES</b>	<b>\$5,425</b>	<b>\$528</b>	<b>\$397</b>		<b>\$27,388</b>	<b>\$3,777</b>	<b>\$180,336</b>	<b>\$36,613</b>
<b>Expenses</b>								
Direct	\$3,944	\$528	\$397		\$20,914	\$3,777	\$120,695	\$36,613
Indirect	1,481				6,474		59,641	
Allocated	1,328				5,829		54,110	
Usage Based	153				645		5,531	
<b>TOTAL EXPENSES</b>	<b>\$5,425</b>	<b>\$528</b>	<b>\$397</b>		<b>\$27,388</b>	<b>\$3,777</b>	<b>\$180,336</b>	<b>\$36,613</b>

2004 Colleges, Schools, Centers and Institutes

Individual Revenue Center Summary | 2003-04 Budget | in thousands

	Marshall School of Business		School of Policy, Planning, and Development		Rossier School of Education		School of Social Work	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
<b>Revenues</b>								
Direct	\$97,900	\$6,972	\$17,841	\$7,613	\$15,219	\$4,746	\$11,911	\$5,050
Center	121,059	6,972	20,462	7,613	16,538	4,746	12,294	5,050
UG Student Aid Fund	(20,103)		(2,022)		(934)		(56)	
Facilities Improvement Fund	(3,056)		(599)		(385)		(327)	
Indirect	(5,015)		943		657		(206)	
Participation	(6,085)		(1,153)		(814)		(637)	
Subvention								
Academic Initiatives	325		600		48		230	
Graduate Programs	745		1,496		1,423		201	
<b>TOTAL REVENUES</b>	<b>\$92,885</b>	<b>\$6,972</b>	<b>\$18,784</b>	<b>\$7,613</b>	<b>\$15,876</b>	<b>\$4,746</b>	<b>\$11,705</b>	<b>\$5,050</b>
<b>Expenses</b>								
Direct	\$67,727	\$6,972	\$12,696	\$7,613	\$11,258	\$4,746	\$8,139	\$5,050
Indirect	25,158		6,088		4,618		3,566	
Allocated	24,257		5,870		4,282		3,433	
Usage Based	901		218		336		133	
<b>TOTAL EXPENSES</b>	<b>\$92,885</b>	<b>\$6,972</b>	<b>\$18,784</b>	<b>\$7,613</b>	<b>\$15,876</b>	<b>\$4,746</b>	<b>\$11,705</b>	<b>\$5,050</b>

	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
<b>Revenues</b>								
Direct	\$1,689		\$7,326	\$394	\$18,910	\$906	\$552,171	\$221,186
Center	1,708		10,417	394	24,486	906	689,033	221,186
UG Student Aid Fund			(2,839)		(4,989)		(120,496)	
Facilities Improvement Fund	(19)		(252)		(587)		(16,366)	
Indirect			(101)		1,860		(238)	
Participation			(528)		(1,229)		(34,851)	
Subvention					800		8,467	
Academic Initiatives			200		1,350		31,455	
Graduate Programs			227		939		(5,309)	
<b>TOTAL REVENUES</b>	<b>\$1,689</b>		<b>\$7,225</b>	<b>\$394</b>	<b>\$20,770</b>	<b>\$906</b>	<b>\$551,933</b>	<b>\$221,186</b>
<b>Expenses</b>								
Direct	\$1,677		\$5,092	\$394	\$14,637	\$906	\$387,350	\$221,186
Indirect	12		2,133		6,133		164,583	
Allocated			1,824		5,623		151,956	
Usage Based	12		309		510		12,627	
<b>TOTAL EXPENSES</b>	<b>\$1,689</b>		<b>\$7,225</b>	<b>\$394</b>	<b>\$20,770</b>	<b>\$906</b>	<b>\$551,933</b>	<b>\$221,186</b>

Definitions:

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

Center Revenues are directly generated by the center less any financial aid paid by center funds.

The Undergraduate Student Aid is centrally administered and charged to academic centers on a pre-determined percent of undergraduate tuition. For fiscal year 2003-2004, the rate is 28%.

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

Participation is a tax on gross tuition revenue, recovery of indirect costs, sales and service and other sources. For fiscal year 2003-2004, the rate is 5%.

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

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

Graduate Programs is funding provided to schools in support of graduate education. Beginning with fiscal year 2003-2004, all PhD tuition is centralized and is allocated to various schools based on academic priorities.

Indirect Expenses are the sum of Allocated and Usage Based and equal the net budgets of administrative centers (see Individual Administrative Centers 2003-2004 Budget by Presidential and Senior Vice Presidential Responsibility Area).

Allocated Indirect are central administrative costs that benefit the university as a whole and are allocated to revenue centers according to various methodologies.

Usage Based Indirect are space related costs that can be linked directly to a center's occupancy.

### 2004 Health Sciences Schools and Health Care Services

Individual Revenue Center Summary | 2003-04 Budget | in thousands

Revenues	School of Dentistry		Independent Health Professions*		Keck School of Medicine		School of Pharmacy	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$41,749	\$7,330	\$13,817	\$1,900	\$82,105	\$164,936	\$33,128	\$6,729
Center	43,385	7,330	15,094	1,900	83,665	164,936	33,744	6,729
UG Student Aid Fund	(684)		(837)		(663)			
Facilities Improvement Fund	(952)		(440)		(897)		(616)	
Indirect	(1,935)		61		9,801		(390)	
Participation	(2,159)		(1,241)		(3,986)		(1,725)	
Subvention			832		6,017			
Academic Initiatives					4,250		240	
Graduate Programs	224		470		3,520		1,095	
<b>TOTAL REVENUES</b>	<b>\$39,814</b>	<b>\$7,330</b>	<b>\$13,878</b>	<b>\$1,900</b>	<b>\$91,906</b>	<b>\$164,936</b>	<b>\$32,738</b>	<b>\$6,729</b>
<b>Expenses</b>								
Direct	\$29,408	\$7,330	\$10,429	\$1,900	\$59,411	\$164,936	\$25,854	\$6,729
Indirect	10,406		3,449		32,495		6,884	
Allocated	8,870		3,437		29,767		6,254	
Usage Based	1,536		12		2,728		630	
<b>TOTAL EXPENSES</b>	<b>\$39,814</b>	<b>\$7,330</b>	<b>\$13,878</b>	<b>\$1,900</b>	<b>\$91,906</b>	<b>\$164,936</b>	<b>\$32,738</b>	<b>\$6,729</b>

Revenues	Total Health Sciences Schools		Dentistry Health Care		Independent Health Professions Health Care*		Medicine Health Care	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$170,799	\$180,895	\$7,585		\$2,137		\$131,770	
Center	175,888	180,895	7,585		2,137		131,770	
UG Student Aid Fund	(2,184)							
Facilities Improvement Fund	(2,905)							
Indirect	7,537							
Participation	(9,111)							
Subvention	6,849							
Academic Initiatives	4,490							
Graduate Programs	5,309							
<b>TOTAL REVENUES</b>	<b>\$178,336</b>	<b>\$180,895</b>	<b>\$7,585</b>		<b>\$2,137</b>		<b>\$131,770</b>	
<b>Expenses</b>								
Direct	\$125,102	\$180,895	\$7,560		\$2,126		\$128,318	
Indirect	53,234		25		11		3,452	
Allocated	48,328		25		11		3,452	
Usage Based	4,906							
<b>TOTAL EXPENSES</b>	<b>\$178,336</b>	<b>\$180,895</b>	<b>\$7,585</b>		<b>\$2,137</b>		<b>\$131,770</b>	

Revenues	Norris Cancer Hospital		Pharmacy Health Care		Total Health Care Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$406		\$3,944		\$145,842	
Center	406		3,944		145,842	
UG Student Aid Fund						
Facilities Improvement Fund						
Indirect						
Participation						
Subvention						
Academic Initiatives						
Graduate Programs						
<b>TOTAL REVENUES</b>	<b>\$406</b>		<b>\$3,944</b>		<b>\$145,842</b>	
<b>Expenses</b>						
Direct			\$3,901		\$141,905	
Indirect	\$406		43		3,937	
Allocated	401		43		3,932	
Usage Based	5				5	
<b>TOTAL EXPENSES</b>	<b>\$406</b>		<b>\$3,944</b>		<b>\$145,842</b>	

\*Includes the departments of Biokinesiology & Physical Therapy, Nursing, and Occupational Science & Occupational Therapy

### 2004 Auxiliaries and Athletics

Individual Revenue Center Summary | 2003-04 Budget | in thousands

Revenues	Animal Resources		Faculty Center		Hospitality Services		Housing and Residence Halls	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$424		\$200		\$24,978		\$34,974	
Center	424		200		24,978		34,974	
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect				40			(3,228)	
Participation								
Subvention							(3,228)	
Academic Initiatives				40				
Graduate Programs								
<b>TOTAL REVENUES</b>	<b>\$424</b>		<b>\$240</b>		<b>\$24,978</b>		<b>\$31,746</b>	
<b>Expenses</b>								
Direct	(\$285)		\$40		\$23,163		\$27,944	
Indirect	709		200		1,815		3,802	
Allocated	475		200		1,814		3,802	
Usage Based	234				1			
<b>TOTAL EXPENSES</b>	<b>\$424</b>		<b>\$240</b>		<b>\$24,978</b>		<b>\$31,746</b>	

Revenues	Intercollegiate Athletics		KUSC		Student Health and Counseling Services		Transportation Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$28,850	\$2,600	\$5,063	\$683	\$20,390		\$13,807	
Center	28,850	2,600	5,063	683	20,390		13,807	
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect	1,000							
Participation								
Subvention	1,000							
Academic Initiatives								
Graduate Programs								
<b>TOTAL REVENUES</b>	<b>\$29,850</b>	<b>\$2,600</b>	<b>\$5,063</b>	<b>\$683</b>	<b>\$20,390</b>		<b>\$13,807</b>	
<b>Expenses</b>								
Direct	\$24,868	\$2,600	\$4,600	\$683	\$18,907		\$10,952	
Indirect	4,982		463		1,483		2,855	
Allocated	4,079		463		1,262		2,828	
Usage Based	903				221		27	
<b>TOTAL EXPENSES</b>	<b>\$29,850</b>	<b>\$2,600</b>	<b>\$5,063</b>	<b>\$683</b>	<b>\$20,390</b>		<b>\$13,807</b>	

Revenues	University Bookstores		University Radisson Hotel		University Village		Total Auxiliaries and Athletics	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$38,887		\$5,484		\$3,173		\$176,230	\$3,283
Center	38,887		5,484		3,173		176,230	3,283
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect							(2,188)	
Participation								
Subvention							(2,228)	
Academic Initiatives							40	
Graduate Programs								
<b>TOTAL REVENUES</b>	<b>\$38,887</b>		<b>\$5,484</b>		<b>\$3,173</b>		<b>\$174,042</b>	<b>\$3,283</b>
<b>Expenses</b>								
Direct	\$36,891		\$5,484		\$2,802		\$155,366	\$3,283
Indirect	1,996				371		18,676	
Allocated	1,925				371		17,219	
Usage Based	71						1,457	
<b>TOTAL EXPENSES</b>	<b>\$38,887</b>		<b>\$5,484</b>		<b>\$3,173</b>		<b>\$174,042</b>	<b>\$3,283</b>

2004 Classification by Center

2003-04 Budget | in thousands

	Colleges, Schools, Centers and Institutes		Health Sciences Schools		Health Care Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
<b>Revenues</b>						
Direct	\$552,171	\$221,186	\$170,799	\$180,895	\$145,842	
Center	689,033	221,186	175,888	180,895	145,842	
UG Student Aid Fund	(120,496)		(2,184)			
Facilities Improvement Fund	(16,366)		(2,905)			
Indirect	(238)		7,537			
Participation	(34,851)		(9,111)			
Subvention	8,467		6,849			
Academic Initiatives	31,455		4,490			
Graduate Programs	(5,309)		5,309			
<b>TOTAL REVENUES</b>	<b>\$551,933</b>	<b>\$221,186</b>	<b>\$178,336</b>	<b>\$180,895</b>	<b>\$145,842</b>	
<b>Expenses</b>						
Direct	\$387,350	\$221,186	\$125,102	\$180,895	\$141,905	
Indirect	164,583		53,234		3,937	
Allocated	151,956		48,328		3,932	
Usage Based	12,627		4,906		5	
<b>TOTAL EXPENSES</b>	<b>\$551,933</b>	<b>\$221,186</b>	<b>\$178,336</b>	<b>\$180,895</b>	<b>\$145,842</b>	

	Auxiliaries and Athletics		Total Revenue Centers		Administrative Centers	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
<b>Revenues</b>						
Direct	\$176,230	\$3,283	\$1,045,042	\$405,364	\$59,741	\$11,373
Center	176,230	3,283	1,186,993	405,364	(82,210)	11,373
UG Student Aid Fund			(122,680)		122,680	
Facilities Improvement Fund			(19,271)		19,271	
Indirect	(2,188)		5,111		7,511	
Participation			(43,962)			
Subvention	(2,228)		13,088		3,228	
Academic Initiatives	40		35,985		4,283	
Graduate Programs						
<b>TOTAL REVENUES</b>	<b>\$174,042</b>	<b>\$3,283</b>	<b>\$1,050,153</b>	<b>\$405,364</b>	<b>\$67,252</b>	<b>\$11,373</b>
<b>Expenses</b>						
Direct	\$155,366	\$3,283	\$809,723	\$405,364	\$307,682	\$11,373
Indirect	18,676		240,430		(240,430)	
Allocated	17,219		221,435		(221,435)	
Usage Based	1,457		18,995		(18,995)	
<b>TOTAL EXPENSES</b>	<b>\$174,042</b>	<b>\$3,283</b>	<b>\$1,050,153</b>	<b>\$405,364</b>	<b>\$67,252</b>	<b>\$11,373</b>

	Subvention Pool		Total University	
	Undesignated	Designated	Undesignated	Designated
<b>Revenues</b>				
Direct	\$5,976		\$1,110,759	\$416,737
Center	5,976		1,110,759	416,737
UG Student Aid Fund				
Facilities Improvement Fund				
Indirect	(12,622)			
Participation	43,962			
Subvention	(16,316)			
Academic Initiatives	(40,268)			
Graduate Programs				
<b>TOTAL REVENUES</b>	<b>(\$6,646)</b>		<b>\$1,110,759</b>	<b>\$416,737</b>
<b>Expenses</b>				
Direct	(\$6,646)		\$1,110,759	\$416,737
Indirect				
Allocated				
Usage Based				
<b>TOTAL EXPENSES</b>	<b>(\$6,646)</b>		<b>\$1,110,759</b>	<b>\$416,737</b>

2004 Individual Administrative Centers by Presidential and Senior Vice Presidential Responsibility Area

2003-04 Budget | in thousands

	Net Operating Budget	Employee Benefits Budget
<b>President:</b>		
President's Office	\$2,776	—
<b>Provost and Senior Vice President, Academic Affairs:</b>		
Academic Senate	\$179	
Academic Services	1,557	
Enrollment Services	9,045	
Emeriti Center	212	
Evaluation Services	97	
Faculty Sabbaticals		\$7,458
Graduate Fellowships	940	
Graduate School/Programs	1,249	15,000
Health Sciences Libraries	4,880	
International Offices	682	
Provost's Office	6,608	
Student Affairs	12,029	
University Art Galleries	460	
Vice President for Health Affairs	1,096	
<b>TOTAL</b>	<b>\$39,034</b>	<b>\$22,458</b>

<b>Academic Affairs and Administration:</b>		
Administrative Information Systems	\$11,516	
Information Services Division	36,085	
<b>TOTAL</b>	<b>\$47,601</b>	<b>—</b>

	Net Operating Budget	Employee Benefits Budget
<b>Senior Vice President, Administration:</b>		
Administrative Operations	\$3,013	\$3,647
Budget and Planning	1,434	677
Career and Protective Services	24,516	9,799
Comptroller	4,316	188,350
Contracts and Grants	3,452	
Corporate Expense	28,786	
Facilities Management Services	30,523	
Facilities Planning	905	
Faculty and Staff Counseling		321
Financial and Business Services	11,778	
Internal Audit and Compliance	2,585	
Major Maintenance and Renovation	2,057	
Risk Pool	3,681	
Senior Vice President's Office	2,996	
Tram, Escort Services and Rideshare	2,320	978
Treasurer	1,645	
University Counsel	8,895	
University Professional Memberships	435	
<b>TOTAL</b>	<b>\$133,337</b>	<b>\$203,772</b>

<b>Senior Vice President, University Advancement:</b>		
Senior Vice President's Office	\$7,413	—

<b>Senior Vice President, University Relations:</b>		
University Relations	\$8,822	
USC Alumni Association	1,447	
<b>TOTAL</b>	<b>\$10,269</b>	<b>—</b>

Employee Benefit Recoveries		(\$226,230)
<b>TOTAL ADMINISTRATIVE CENTERS</b>	<b>\$240,430</b>	<b>—</b>

Undergraduate Student Aid Fund	\$122,680	
Facilities Improvement Fund	19,271	
<b>GRAND TOTAL</b>	<b>\$382,381</b>	<b>—</b>

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*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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