

University
of Southern
California



HIGHLIGHTS *of the* UNIVERSITY

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	June 30 2006	June 30 2005
FINANCIAL (in thousands)		
Total revenues	\$2,257,234	\$2,123,486
Total cash gifts and equipment gifts	\$379,471	\$291,327
Capital expenditures	\$283,869	\$198,629
Total assets at year end	\$5,533,079	\$4,933,257
Total debt at year end	\$406,771	\$400,872
Increase in net assets	\$461,496	\$510,202
Market value of endowment	\$3,065,935	\$2,746,051
Executed contracts, grants, subcontracts and cooperative agreements	\$794,363	\$804,055
Property, plant and equipment, net	\$1,293,549	\$1,067,933
Net Asset Balances:		
Unrestricted	\$3,147,924	\$2,801,140
Temporarily restricted	\$208,009	\$186,499
Permanently restricted	\$1,177,482	\$1,084,280

STUDENTS**Enrollment (head count, autumn):**

Undergraduate students	16,897	16,474
Graduate and professional students	15,939	15,686

Degrees conferred:

Bachelor degrees	4,269	4,139
Advanced	5,274	5,253
Certificates	188	191
Annual tuition rate	\$31,458	\$29,988

FACULTY AND STAFF


Faculty	4,510	4,390
Staff	7,855	7,834

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, 2006, 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 2005 financial statements; and in our report dated September 9, 2005, 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.

As discussed in Note 17 to the consolidated financial statements, the university changed its method of accounting for conditional asset retirement obligations in accordance with Financial Accounting Standards Board Interpretation No. 47.



Los Angeles, California
September 8, 2006

CONSOLIDATED BALANCE SHEET

in thousands

	June 30 2006	June 30 2005
	A	B
ASSETS		
1 Cash and cash equivalents	\$436,870	\$448,271
2 Accounts receivable, [see Note 3]	62,164	57,029
3 Notes receivable, net of allowance for doubtful accounts, \$11,889 (2006), \$11,907 (2005)	97,082	97,226
4 Pledges receivable, [see Note 9]	170,215	151,082
5 Investments, [see Note 4]	3,404,679	3,042,209
6 Inventories, prepaid expenses and other assets	68,520	69,507
7 Property, plant and equipment, net, [see Note 5]	1,293,549	1,067,933
8 TOTAL ASSETS	\$5,533,079	\$4,933,257
LIABILITIES		
9 Accounts payable	\$73,088	\$60,328
10 Accrued liabilities	86,483	77,807
11 Refundable advances	24,105	19,656
12 Current portion of long-term debt	3,216	2,910
13 Deposits and deferred revenue	90,823	65,757
14 Post-retirement health benefit obligation, [see Note 14]	1,109	2,314
15 Actuarial liability for annuities payable	166,950	164,951
16 Federal student loan funds	62,779	62,566
17 Asset retirement obligations, [see Note 17]	78,500	
18 Long-term debt, [see Note 6]	403,555	397,962
19 Other	9,056	7,087
20 TOTAL LIABILITIES	999,664	861,338
NET ASSETS		
21 Unrestricted	3,147,924	2,801,140
22 Temporarily restricted	208,009	186,499
23 Permanently restricted	1,177,482	1,084,280
24 TOTAL NET ASSETS	4,533,415	4,071,919
25 TOTAL LIABILITIES AND NET ASSETS	\$5,533,079	\$4,933,257

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, 2005

	Unrestricted Net Assets				Year Ended June 30, 2006							Year Ended June 30, 2005
	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	\$886,945							\$886,945			\$886,945	\$834,755
2 Less financial aid	(259,930)						(259,930)			(259,930)	(247,955)	
3 Net student tuition and fees	627,015						627,015			627,015	586,800	
4 Endowment income	37,272		\$30,360				67,632		\$228	67,860	56,201	
5 Investment and other income	13,592		4,343	\$15,463			32,671		(\$754)	235	32,152	19,541
6 Net appreciation (depreciation) in fair value of investments			3,888	327		\$287,183	291,398		1,047	11,338	303,783	338,827
7 Government contracts and grants			260,924				260,924				260,924	266,411
8 Recovery of indirect costs	105,310						105,310				105,310	105,260
9 Gifts and pledges	47,844		180,007	37,172	\$1,650		266,673		50,043	82,643	399,359	316,628
10 Sales and service	30,649						30,649				30,649	29,535
11 Auxiliary enterprises	191,728						191,728				191,728	186,554
12 Professional Services Agreements		\$74,370					74,370				74,370	74,095
13 Clinical practices		94,175					94,175				94,175	81,383
14 Loss on the disposal/sale of plant assets					(852)		(852)				(852)	(2,485)
15 Other	65,278		6,726				72,004				72,004	68,085
16 Present value adjustment to annuities payable									(161)	(1,082)	(1,243)	(3,349)
17 Net assets released from restrictions			27,029	444			28,825		(28,665)	(160)		
18 TOTAL REVENUES	1,118,688	168,545	513,277	53,406	798	288,535	(727)	2,142,522	21,510	93,202	2,257,234	2,123,486
EXPENSES												
19 Educational and general activities	1,014,944		456,178		159		1,471,281				1,471,281	1,367,531
20 Health care services		163,871					163,871				163,871	151,049
21 Depreciation					86,092		86,092				86,092	75,785
22 Interest on indebtedness				19,055			19,055				19,055	18,666
23 Loss on refunding				4,335			4,335				4,335	
24 TOTAL EXPENSES	1,014,944	163,871	456,178	23,390	86,251		1,744,634				1,744,634	1,613,031
Transfers within Unrestricted Net Assets:												
25 Mandatory transfers for external debt service	(27,544)	(1,145)		28,689								
26 Unrestricted gifts designated for long-term investment	(16,103)					16,103						
27 Internal loan repayments	(21,969)	(2,055)	(613)	24,637								
28 Accumulated gains used for spending rule	26,987		26,891			(53,878)						
29 Designated support for student aid	36,333		(36,333)									
30 Other miscellaneous nonmandatory transfers	(80,699)	(2,695)	23,977	62,025		(2,608)						
31 Property, plant and equipment acquisitions	(20,464)	(123)	15,089	(103,758)	109,256							
32 Increase (Decrease) in Net Assets from continuing operations	285	(1,344)	86,110	41,609	23,803	248,152	(727)	397,888	21,510	93,202	512,600	510,455
33 Loss from discontinued operations of Kenneth Norris Jr. Cancer Hospital												(253)
34 Cumulative effect of change in accounting principle, [see Note 17]					(61,892)		(61,892)				(61,892)	
35 Affiliation with HRA			10,788				10,788				10,788	
36 Increase (Decrease) in Net Assets	285	(1,344)	96,898	41,609	(38,089)	248,152	(727)	346,784	21,510	93,202	461,496	510,202
37 Transfer operating surplus to departmental net assets	(285)		285									
38 Beginning Net Assets		(22,657)	448,157	158,195	423,381	1,796,505	(2,441)	2,801,140	186,499	1,084,280	4,071,919	3,561,717
39 ENDING NET ASSETS		(\$24,001)	\$545,340	\$199,804	\$385,292	\$2,044,657	(\$3,168)	\$3,147,924	\$208,009	\$1,177,482	\$4,533,415	\$4,071,919
Nature of specific net assets:												
40 Internally designated		(\$37,051)	\$46,068		(\$4,436)		(\$7,812)	(\$3,231)			(\$3,231)	(\$5,903)
41 Gift and departmental			374,761	\$120,863			4,644	500,268			500,268	381,251
42 Externally restricted									\$15,914	\$31,594	47,508	39,047
43 Pledges									125,839	44,376	170,215	151,082
44 Kenneth Norris Jr. Cancer Hospital – USC/Norris Cancer Center Foundation		13,050						13,050			13,050	13,151
45 Unexpended endowment income			124,511				124,511				124,511	110,771
46 Annuity and living trusts									66,212	80,278	146,490	131,104
47 True endowment									44	1,021,234	1,021,278	949,546
48 Funds functioning as endowment						\$2,044,657	2,044,657	2,044,657			2,044,657	1,796,505
49 Debt service funds				78,941			78,941	78,941			78,941	77,707
50 Invested in plant					389,728		389,728	389,728			389,728	427,658
51 ENDING NET ASSETS		(\$24,001)	\$545,340	\$199,804	\$385,292	\$2,044,657	(\$3,168)	\$3,147,924	\$208,009	\$1,177,482	\$4,533,415	\$4,071,919

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, 2005

	ACADEMIC, HEALTH CARE AND STUDENT SERVICES					SUPPORT SERVICES					Year Ended June 30, 2006 K	Year Ended June 30, 2005 L
	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	\$408,441	\$145,215	\$13,299	\$89,589	\$21,333	\$30,904	\$32,215	\$49,519	\$13,836	\$46,867	\$851,218	\$803,666
2 Fringe benefits	94,448	38,845	3,954	27,231	6,237	9,775	10,258	16,836	4,320	13,326	225,230	216,556
3 Materials and supplies	75,289	81,876	5,165	8,128	7,135	61,243	33,375	7,826	6,902	50,998	337,937	295,952
4 Cost of goods sold	9,880	14,893			131	526		3,980		50,124	79,534	76,927
5 Utilities						21,592					21,592	19,811
6 Travel	18,388	7,052	176	31	1,114	87	748	523	436	4,315	32,870	28,874
7 Telephone				1,224		5,786					7,010	6,608
8 Other	29,110			3,401	793			6,540	325	6,474	46,643	45,277
9 USC Care purchased services				33,118							33,118	24,909
10 Loss on refunding								4,335			4,335	
11	635,556	287,881	22,594	162,722	36,743	129,913	76,596	89,559	25,819	172,104	1,639,487	1,518,580
Allocations:												
12 Depreciation	36,109	15,395	5,787		3,799		4,214	3,462	163	17,163	86,092	75,785
13 Interest	13,590					550		3,854		1,061	19,055	18,666
14 Plant operations and maintenance	58,072	10,328	1,159		5,795	(130,463)	2,711	11,045	168	41,185		
15	\$743,327	\$313,604	\$29,540	\$162,722	\$46,337		\$83,521	\$107,920	\$26,150	\$231,513	\$1,744,634	\$1,613,031

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT of CASH FLOWS

in thousands

	Year Ended June 30, 2006	Year Ended June 30, 2005
	A	B
CASH FLOWS FROM OPERATING ACTIVITIES		
1 Change in Net Assets	\$461,496	\$510,202
Adjustments to reconcile change in net assets to net cash provided by Operating activities:		
2 Depreciation	86,092	75,785
3 Cumulative effect of change in accounting principle	61,892	
4 Affiliation with HRA, net of cash	(8,410)	
5 Loss on the disposal/sale of plant assets	852	5,794
6 Loss on refunding	4,335	
7 Equipment gifts-in-kind	(1,650)	(3,126)
8 Present value adjustment to annuities payable	418	2,735
9 (Increase) decrease in accounts receivable	(4,667)	2,842
10 Increase in pledges receivable	(19,133)	(25,622)
11 Decrease (increase) in inventories, prepaid expenses and other assets	1,085	(4,321)
12 Increase (decrease) in accounts payable	12,186	(5,023)
13 Increase in accrued liabilities	8,676	5,831
14 Increase (decrease) in refundable advances	4,449	(3,823)
15 Increase in deferred revenue	15,726	8,118
16 Decrease in post-retirement health benefit obligation	(1,205)	
17 Increase in other	1,969	3,076
18 Contributions restricted for permanent investment and property, plant and equipment	(86,217)	(67,638)
19 Net realized gain on sale of investments	(198,057)	(206,716)
20 Net unrealized appreciation in investments	(105,831)	(132,276)
21 Net cash provided by operating activities	234,006	165,838
CASH FLOWS FROM INVESTING ACTIVITIES		
22 Proceeds from note collections and sale of notes	20,740	18,665
23 Notes issued	(19,868)	(20,402)
24 Proceeds from sale of investments	2,098,290	1,945,976
25 Purchase of investments	(2,145,982)	(1,967,340)
26 Purchase of property, plant and equipment, net	(283,869)	(198,629)
27 Net cash used by investing activities	(330,689)	(221,730)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment:		
28 Endowment	69,996	51,427
29 Plant	16,585	19,084
30 Trusts and other	(364)	(2,873)
31 Repayment of long-term debt	(68,546)	(327)
32 Increase in long-term debt	66,545	
33 Increase in federal student loan funds	213	450
34 Investment income and (losses) on annuities payable	10,465	(3,844)
35 Payments on annuities payable	(15,992)	(14,985)
36 Increase to annuities payable resulting from new gifts	6,380	11,275
37 Net cash provided by financing activities	85,282	60,207
38 Net (decrease) increase in cash and cash equivalents	(11,401)	4,315
39 Cash and cash equivalents at beginning of year	448,271	443,956
40 Cash and cash equivalents at end of year	\$436,870	\$448,271

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 (see Note 2) 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, plus the estimated value of any associated legal retirement obligations, 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

*Note 1 continued***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, 2006, included in the net appreciation in fair value of investments of \$297,697,000 on the Consolidated Statement of Activities is \$88,486,000 of net appreciation 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 using discount rates ranging from 3.3% to 7.5% and 1994 Group Annuity Table for annuities issued on or before December 31, 2004 and Annuity 2000 Mortality Table for annuities issued on or after January 1, 2005.

The university has recorded conditional asset retirement obligations (Note 17) associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in our facilities. When an asset retirement obligation

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

Note 1 continued

is identified, the university records the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated useful life of the associated asset. The fair value of the conditional asset retirement obligations were estimated using a probability weighted, discounted cash flow model. The present value of future estimated cash flows was calculated using the credit adjusted, risk free rate applicable to the university in order to determine the fair value of the conditional asset retirement obligations.

In accordance with the university's Revenue Center Management (RCM) 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. In accordance with RCM policy, operating units with educational and general activities which result in deficit balances are required at the end of the year to transfer departmentally designated assets sufficient to fund the deficit balance.

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, 2005 from which the summarized financial information was derived. Certain reclassifications have been made to summarized financial information for comparative purposes.

NOTE 2

Effective January 1, 2006, the University of Southern California and Health Research Association, Inc. (HRA) entered into an Affiliation Agreement (Agreement) whereby HRA became a subsidiary of the university and the university became the sole corporate member of HRA.

HRA's corporate purpose of serving as the principal clinical trial management support of the university's private industry-sponsored clinical research programs was not changed as a result of the Agreement. No cash or property was exchanged as a result of this Agreement. Effective January 1, 2006, the administrative employees of HRA became employees of the university. The consolidated financial statements include the operating activities of HRA for the period from January 1, 2006 through June 30, 2006.

The USC/Norris Cancer Center Foundation (Foundation), formerly 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. Effective December 16, 2003, the university completed the sale of the Hospital operations and certain tangible assets for \$35,000,000 consisting of cash and a note receivable, to an unaffiliated third party (Buyer). Subsequent to the sale of the Hospital operations, the not-for-profit purpose of the Hospital was changed to create the Foundation. The purpose of the Foundation is to provide funding for inpatient and outpatient cancer care as well as clinical, therapeutic, specimen and prevention research trials that provide cancer care. The proceeds from the sale of the Hospital are used to fund the Foundation as required by the Attorney General for the State of California.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of operations for the Hospital have been included in discontinued operations on the Statement of Activities.

A portion of the Hospital's revenue from health care services is derived from funds provided on behalf of patients under federal programs.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

Note 2 continued

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. As of June 30, 2005 and 2006, the Hospital has no net receivables outstanding.

During 2001, the Hospital entered into a five-year agreement with an affiliate of the Buyer to manage the day-to-day operations of the Hospital. This agreement was terminated on the effective date of the sale of the Hospital.

NOTE 3*Accounts receivable (in thousands):*

U.S. Government, net of allowance for doubtful accounts of \$813	\$13,865
Student and other, net of allowance for doubtful accounts of \$5,760	35,127
Patient care and practice plans, net of allowance for doubtful accounts and contractual adjustments of \$24,246	13,172
	<u>\$62,164</u>

NOTE 4*Investments (in thousands):*

	Cost	Market
Stocks	\$1,336,235	\$1,619,405
Bonds:		
U.S. Government	136,898	134,651
Corporate	255,654	248,209
International investments	410,742	679,473
Venture capital	407,192	343,231
Assets held by other trustees	220,817	244,287
Mortgages, notes and other receivables	1,190	1,920
Real estate and other	106,723	133,503
TOTAL	<u>\$2,875,451</u>	<u>\$3,404,679</u>

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

Land and improvements	\$98,996
Building and improvements	1,349,553
Equipment	334,968
Library books and collections	181,417
Construction-in-progress	280,949
	<u>2,245,883</u>
Less: Accumulated depreciation	952,334
	<u>\$1,293,549</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 1997A	5.50-5.70	2007-2012	\$14,615
Discount			(94)
Series 1998A	5.00	2029	30,360
Series 1999	5.50	2028	60,000
Premium			950
Series 2003A	4.75-5.00	2024, 2034	150,000
Premium			1,917
Series 2003B	5.00	2007-2016	10,165
Premium			935
Series 2003C	5.00	2034	50,000
Premium			3,569
Series 2005	4.00-5.00	2029	66,545
Premium			2,905
<i>University of Southern California Bonds</i>			
Series 1998	5.57-6.26	2009-2019	11,585
Discount			(34)
Mortgages	6.99	2007-2020	3,353
			<u>406,771</u>
Less current portion of long-term debt			3,216
			<u>\$403,555</u>

Principal payment requirements relating to bonds, notes and mortgages payable, after giving effect to refunding for the next five fiscal years are approximately: 2007 \$3,216,000; 2008 \$3,402,000; 2009 \$6,598,000; 2010 \$3,791,000; 2011 \$4,019,000.

Interest payments for fiscal year 2006 were \$18,335,000.

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 14, 2005, the university issued \$66,545,000 of CEFA Series 2005 bonds. These proceeds were deposited into a refunding escrow account, which will be used to pay interest, principal and redemption premium for a portion of CEFA Series 1997A and all of CEFA Series 1997C bonds.

On November 15, 2005, the university entered into an interest rate swap transaction with a counterparty for a notional amount of \$62,250,000. Under the terms of this agreement, the effective date of the swap is July 8, 2009 at which point the university will begin to accrue payments (to the counterparty) at a rate of 4.525% times the above notional amount and will receive payment equal to the prevailing weekly Bond Market Association Municipal Swap Index rate from the counterparty times the above notional amount. These net payments or receipts will settle on the first calendar day of each month commencing on August 1, 2009 until the swap is either terminated or expires on October 1, 2027. As of June 30, 2006, the estimated fair value of the swap was an asset of \$606,617.

In May 2005, HRA entered into a \$3,500,000 term note and Credit Agreement (Note) with a bank secured by a first trust deed. The term of the Note is 15 years with final payment due on May 1, 2020. As defined in the Note, interest is payable monthly at LIBOR, which was 5.1% at June 30, 2006, plus 2.0%.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

Note 6 continued

In addition, HRA entered into a \$3,500,000 Interest Rate Swap Agreement in May 2005 and terminates in May 2020. This swap was executed with the purpose of fixing the rate on the Note. Under the terms of the swap agreement, the floating interest rate on the Note has been effectively fixed at 6.99%. The difference between interest earned and the interest obligation accrued is recorded as interest expense. The fair value of this agreement at June 30, 2006 was an asset of \$124,305.

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, 2006 consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$148,413	\$68,235	\$216,648
Endowed scholarships	14,204	6,531	20,735
External financial aid	15,446	7,101	22,547
	<u>\$178,063</u>	<u>\$81,867</u>	<u>\$259,930</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	\$941,917	\$1,675,866	\$9,666	\$2,627,449
Non-pooled	79,361	359,125		438,486
	<u>\$1,021,278</u>	<u>\$2,034,991</u>	<u>\$9,666</u>	<u>\$3,065,935</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 (8%), stocks (50%), international investments (26%), venture capital (13%) 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, 2006 was \$564.29.

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 2006 fiscal year, the Board of Trustees approved current distribution of 103% 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, \$23.57 was distributed to each time-weighted unit for a total spending rule allocation of \$107,572,000. Investment income amounting to \$11.76 per time weighted unit was earned, totaling \$53,695,000, and \$53,878,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2006 represent 3.9% of the market value of the endowment pool at June 30, 2006. Total earnings allocated for spending in fiscal year 2006 represent 3.6% of the market value of total endowment at June 30, 2006.

Approximately \$10,004,000 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	\$16,967
Between one year and five years	121,596
More than five years	94,641
Less: discount of \$52,422	
and allowance of \$10,567	(62,989)
	<u>\$170,215</u>

Pledges receivable at June 30, 2006 have the following restrictions (in thousands):

Endowment for departmental programs and activities	\$42,004
Endowment for scholarship	3,615
Building construction	12,648
Departmental programs and activities	111,948
	<u>\$170,215</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, 2006 are summarized as follows (in thousands):

Current sponsored awards	\$318,570
Executed grants and contracts for future periods	475,793
	<u>\$794,363</u>

NOTE 11

At June 30, 2006, internal loans for capital investment were \$202,298,000 which are repaid through nonmandatory transfers from the operating budget to unexpended plant within unrestricted net assets. The maturity dates range from 2007 to 2034 with various interest rates.

Internal loans maturing within each of the next five fiscal years range from \$14.4 million to \$25.3 million.

NOTE 12

Contractual commitments for educational plant amounted to approximately \$147,109,000 at June 30, 2006. 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.

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 monthly 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 \$57,275,000 during the year ended June 30, 2006.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

Note 13 continued

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, 2006 (in thousands):

Benefit cost	\$7,770
Employer contribution	\$3,000
Benefits paid	\$4,154
<hr/>	
Accumulated benefit obligation	
at end of year	\$127,754
Projected benefit obligation	\$142,575
Fair value of plan assets	157,139
Funded status	\$14,564
<hr/>	
Items recognized in the consolidated balance sheet:	
Prepaid benefit cost	\$36,437
<hr/>	
Weighted-average assumptions:	
Discount rate	6.25%
Expected return on plan assets	8.00%
Rate of compensation increase	5.00%

The overall expected rate of return on assets of 8% is based on historical returns of the plan, as well as long-term return assumptions given the plan's asset allocation.

The pension plan's weighted average asset allocations, by asset category, are as follows:

Asset Category	June 30, 2006	Target at June 30, 2006
Equity securities	66.6%	60.0%
Debt securities	32.1%	40.0%
Other	1.3%	0.0%
TOTAL	100.0%	100.0%

No contribution to the pension plan is required during the fiscal year ending June 30, 2007. The university may make discretionary contributions to its pension plan during the next fiscal year. This will be reassessed during the year.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

Fiscal Year Ending June 30,	
2007	\$4,153
2008	\$4,624
2009	\$5,105
2010	\$5,673
2011	\$6,235
2012 - 2016	\$40,482

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 year.

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, 2006 (in thousands):

Benefit cost	(\$176)
Employer contributions	\$468
Plan participant contributions	\$0
Benefits paid	\$468
<hr/>	
Benefit obligation	\$618
Fair value of plan assets	0
Funded status	(\$618)
<hr/>	
Accrued benefit cost recognized in the consolidated balance sheet	(\$1,109)
<hr/>	
Weighted-average assumption:	
Discount rate	4.00%

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

Note 14 continued

For measurement purposes, a 5.5% annual rate of increase in the per capita cost of post-retirement medical benefits for the health maintenance organization and indemnity programs was assumed for 2006.

The following projected benefit payments and contributions are expected to be paid (in thousands):

Fiscal Year Ending June 30,	
2007	\$630

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 \$413,654,000 at June 30, 2006. 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.

NOTE 17

Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143) (FIN 47) was issued in March 2005. This interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. Upon adoption of FIN 47 on June 30, 2006, the university recognized asset retirement obligations related primarily to asbestos contamination in buildings and recorded a non-cash transition charge of approximately \$61,892,000 which is reported as a cumulative effect of a change in accounting principle in the consolidated statement of activities, and a liability for conditional asset retirement obligations of \$78,500,000.

NOTE 18

On August 22, 2006, the university filed a lawsuit to order a Tenet Healthcare Corporation subsidiary to give up ownership and control of USC University Hospital. The lawsuit seeks a judicial declaration terminating the university's agreements with Tenet, an order forcing Tenet to vacate the premises and an order mandating that Tenet deliver a quitclaim deed to the university to clear title to the premises. The impact of the lawsuit is not determinable at this time.

2007 SUMMARY of BUDGETED OPERATING REVENUES and EXPENSES

2006-07 Budget | in thousands

	Undesignated Budget Education and General			Undesignated Budget Health Care Services			Designated Budget			Total Budget		
	2005-06 Budget	2006-07 Budget	Percent Change	2005-06 Budget	2006-07 Budget	Percent Change	2005-06 Budget	2006-07 Budget	Percent Change	2005-06 Budget	2006-07 Budget	Percent Change
REVENUES												
Tuition and fees	\$898,324	\$940,926	4.74%							\$898,324	\$940,926	4.74%
Less student aid	(223,943)	(235,135)	5.00%							(273,388)	(277,364)	1.45%
Net tuition and fees	674,381	705,791	4.66%							624,936	663,562	6.18%
Endowment income	55,600	57,985	4.29%							96,392	96,462	0.07%
Investment income	2,885	4,535	57.19%							2,885	4,535	57.19%
Gifts	25,808	31,215	20.95%							141,145	166,765	18.15%
Contracts and grants – direct										325,462	337,594	3.73%
Recovery of indirect costs:												
Contracts and grants	105,701	100,694	(4.74%)							105,701	100,694	(4.74%)
Endowments/Gifts	8,674	10,455	20.53%							8,674	10,455	20.53%
Auxiliary enterprises	190,059	219,821	15.66%							190,059	219,821	15.66%
Sales and service and other sources	88,291	100,344	13.65%	145,958	132,973	(8.90%)				234,249	233,317	(0.40%)
TOTAL REVENUES	\$1,151,399	\$1,230,840	6.90%	\$145,218	\$132,973	(8.43%)	\$432,886	\$469,392	8.43%	\$1,729,503	\$1,833,205	6.00%
EXPENSES												
Compensation:												
Faculty salaries	\$222,780	\$235,347	5.64%	\$68,538	\$58,503	(14.64%)	\$56,829	\$62,246	9.53%	\$348,147	\$356,096	2.28%
Other salaries and wages	328,335	354,815	8.06%	26,020	31,078	19.44%	128,835	137,105	6.42%	483,190	522,998	8.24%
Employee benefits	156,310	165,431	5.84%	30,258	28,218	(6.74%)	48,664	49,301	1.31%	235,232	242,950	3.28%
TOTAL COMPENSATION	707,425	755,593	6.81%	124,816	117,799	(5.62%)	234,328	248,652	6.11%	1,066,569	1,122,044	5.20%
Current expense	258,230	280,559	8.65%	9,063	7,055	(22.16%)	139,977	162,010	15.74%	407,270	449,624	10.40%
Capital financing	61,195	70,968	15.97%	6,011	5,415	(9.92%)	454	547	20.48%	67,660	76,930	13.70%
Professional services	30,223	28,392	(6.06%)	4,377	2,082	(52.43%)	12,463	16,851	35.21%	47,063	47,325	0.56%
Equipment/Library	22,865	21,906	(4.19%)	368		(100.00%)	17,121	11,842	(30.83%)	40,354	33,748	(16.37%)
Utilities/Telephone	32,926	35,242	7.03%							32,926	35,242	7.03%
Off-campus facilities	15,881	15,970	0.56%	329			13,055	12,847	(1.59%)	29,265	28,817	(1.53%)
Travel	12,405	14,481	16.74%	45	23	(48.89%)	14,402	15,980	10.96%	26,852	30,484	13.53%
Rentals and leases	10,249	7,729	(24.59%)	209	599	186.60%	1,086	663	(38.95%)	11,544	8,991	(22.12%)
TOTAL EXPENSES	\$1,151,399	\$1,230,840	6.90%	\$145,218	\$132,973	(8.43%)	\$432,886	\$469,392	8.43%	\$1,729,503	\$1,833,205	6.00%

2007 COLLEGES, SCHOOLS, CENTERS and INSTITUTES

Individual Revenue Center Summary | 2006-07 Budget | in thousands

REVENUES	Annenberg Center for Communication		Annenberg School for Communication		School of Architecture		School of Cinematic Arts	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$7,295	\$745	\$33,678	\$9,100	\$10,991	\$1,743	\$31,889	\$10,008
Center	7,295	745	42,163	9,100	14,831	1,743	40,214	10,008
UG Student Aid Fund			(7,552)		(3,467)		(7,312)	
Facilities Improvement Fund			(933)		(373)		(1,013)	
Indirect	(5)		(369)		(957)		(1,260)	
Participation	(5)		(2,429)		(973)		(2,636)	
Academic Initiatives							130	
Provost's Initiatives			8		16		146	
Graduate Programs			2,052				1,100	
TOTAL REVENUES	\$7,290	\$745	\$33,309	\$9,100	\$10,034	\$1,743	\$30,629	\$10,008

EXPENSES	Annenberg Center for Communication		Annenberg School for Communication		School of Architecture		School of Cinematic Arts	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$5,740	\$745	\$26,789	\$9,100	\$6,549	\$1,743	\$20,121	\$10,008
Indirect	1,550		6,520		3,485		10,508	
Allocated Central Costs	1,153		5,622		2,838		9,072	
Facilities Based	397		898		647		1,436	
TOTAL EXPENSES	\$7,290	\$745	\$33,309	\$9,100	\$10,034	\$1,743	\$30,629	\$10,008

REVENUES	Centers for Creative Technologies		Davis School of Gerontology		Gould School of Law		Graduate Programs	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$3,916	\$27,970	\$5,192	\$7,940	\$32,009	\$2,491	\$46,884	
Center	3,916	27,970	5,647	7,940	33,077	2,491	46,884	
UG Student Aid Fund			(391)		(292)			
Facilities Improvement Fund			(64)		(776)			
Indirect	(244)		1,562		1,006		(46,780)	
Participation	(244)		(271)		(1,841)			
Academic Initiatives			1,200		2,000		16,200	
Provost's Initiatives					847			
Graduate Programs			633				(62,980)	
TOTAL REVENUES	\$3,672	\$27,970	\$6,754	\$7,940	\$33,015	\$2,491	\$104	

EXPENSES	Centers for Creative Technologies		Davis School of Gerontology		Gould School of Law		Graduate Programs	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$3,096	\$27,970	\$3,048	\$7,940	\$24,837	\$2,491	\$104	
Indirect	576		3,706		8,178			
Allocated Central Costs	576		3,200		6,989			
Facilities Based			506		1,189			
TOTAL EXPENSES	\$3,672	\$27,970	\$6,754	\$7,940	\$33,015	\$2,491	\$104	

REVENUES	College of Letters, Arts and Sciences		Marshall School of Business		School of Policy, Planning, and Development		Roski School of Fine Arts	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$198,738	\$54,244	\$120,721	\$13,683	\$22,863	\$9,998	\$6,903	\$520
Center	281,813	54,244	150,316	13,683	26,209	9,998	9,663	520
UG Student Aid Fund	(76,215)		(25,795)		(2,610)		(2,525)	
Facilities Improvement Fund	(6,860)		(3,800)		(736)		(235)	
Indirect	12,304		(8,210)		(369)		(493)	
Participation	(19,101)		(9,702)		(1,819)		(628)	
Academic Initiatives	200						100	
Provost's Initiatives	509						13	
Graduate Programs	30,696		1,492		1,450		22	
TOTAL REVENUES	\$211,042	\$54,244	\$112,511	\$13,683	\$22,494	\$9,998	\$6,410	\$520

EXPENSES	College of Letters, Arts and Sciences		Marshall School of Business		School of Policy, Planning, and Development		Roski School of Fine Arts	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$137,735	\$54,244	\$82,379	\$13,683	\$14,943	\$9,998	\$4,607	\$520
Indirect	73,307		30,132		7,551		1,803	
Allocated Central Costs	61,156		28,014		6,813		1,504	
Facilities Based	12,151		2,118		738		299	
TOTAL EXPENSES	\$211,042	\$54,244	\$112,511	\$13,683	\$22,494	\$9,998	\$6,410	\$520

REVENUES	Rossier School of Education		School of Social Work		Summer and Special Programs		School of Theatre	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$21,767	\$4,127	\$17,822	\$4,763	\$2,172		\$9,637	\$427
Center	23,021	4,127	18,427	4,763	2,205		13,659	427
UG Student Aid Fund	(703)		(79)				(3,694)	
Facilities Improvement Fund	(551)		(526)		(33)		(328)	
Indirect	(572)		(576)				(238)	
Participation	(1,466)		(1,248)				(878)	
Academic Initiatives	325						393	
Provost's Initiatives	35		3				194	
Graduate Programs	534		669				53	
TOTAL REVENUES	\$21,195	\$4,127	\$17,246	\$4,763	\$2,172		\$9,399	\$427

EXPENSES	Rossier School of Education		School of Social Work		Summer and Special Programs		School of Theatre	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$16,061	\$4,127	\$12,983	\$4,763	\$2,172		\$6,748	\$427
Indirect	5,134		4,263				2,651	
Allocated Central Costs	4,511		3,955				2,045	
Facilities Based	623		308				606	
TOTAL EXPENSES	\$21,195	\$4,127	\$17,246	\$4,763	\$2,172		\$9,399	\$427

REVENUES	Thornton School of Music		Viterbi School of Engineering Academic Programs		Information Sciences Institute		Total Colleges, Schools, Centers and Institutes	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$21,165	\$1,548	\$72,523	\$44,239	\$9,241	\$63,512	\$675,406	\$257,058
Center	27,578	1,548	83,067	44,239	9,241	63,512	839,226	257,058
UG Student Aid Fund	(5,739)		(8,587)				(144,961)	
Facilities Improvement Fund	(674)		(1,957)				(18,859)	
Indirect	2,637		19,309		(61)		(23,316)	
Participation	(1,806)		(5,786)		(511)		(51,344)	
Academic Initiatives	4,200		9,000		450		34,198	
Provost's Initiatives	46		5				1,822	
Graduate Programs	197		16,090				(7,992)	
TOTAL REVENUES	\$23,802	\$1,548	\$91,832	\$44,239	\$9,180	\$63,512	\$652,090	\$257,058

EXPENSES	Thornton School of Music		Viterbi School of Engineering Academic Programs		Information Sciences Institute		Total Colleges, Schools, Centers and Institutes	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$16,452	\$1,548	\$57,410	\$44,239	\$7,021	\$63,512	\$448,795	\$257,058
Indirect	7,350		34,422		2,159		203,295	
Allocated Central Costs	6,422		28,496		2,159		174,525	
Facilities Based	928		5,926				28,770	
TOTAL EXPENSES	\$23,802	\$1,548	\$91,832	\$44,239	\$9,180	\$63,512	\$652,090	\$257,058

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 from 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 2006-2007, the rate is 28%.

Indirect Revenues are the sum of Participation, Academic Initiatives, Provost's 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 2006-2007, the rate is 6.4%.

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

Provost's Initiatives funding is allocated from centrally controlled funds to support university priorities.

Graduate Programs funding is provided to schools in support of graduate education. All PhD tuition is centralized and allocated to various schools based on academic priorities.

Indirect Expenses are the sum of Allocated Central Costs and Facilities Based and equal the net budgets of administrative centers (see Individual Administrative Centers 2006-2007 Budget by Presidential and Senior Vice Presidential Responsibility Area).

Allocated Central Costs are central administrative costs that benefit the university as a whole and are allocated to revenue centers.

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

2007 HEALTH SCIENCES SCHOOLS and HEALTH CARE SERVICES

Individual Revenue Center Summary | 2006-07 Budget | in thousands

	School of Dentistry		Keck School of Medicine		School of Pharmacy		Total Health Sciences Schools	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
REVENUES								
Direct	\$76,971	\$11,438	\$128,666	\$165,867	\$40,157	\$8,595	\$245,794	\$185,900
Center	80,089	11,438	131,271	165,867	40,930	8,595	252,290	185,900
UG Student Aid Fund	(1,370)		(1,410)				(2,780)	
Facilities Improvement Fund	(1,748)		(1,195)		(773)		(3,716)	
Indirect	(4,019)		11,895		(1,625)		6,251	
Participation	(5,120)		(5,585)		(2,652)		(13,357)	
Academic Initiatives			11,585				11,585	
Provost's Initiatives			31				31	
Graduate Programs	1,101		5,864		1,027		7,992	
TOTAL REVENUES	\$72,952	\$11,438	\$140,561	\$165,867	\$38,532	\$8,595	\$252,045	\$185,900
EXPENSES								
Direct	\$55,289	\$11,438	\$98,204	\$165,867	\$30,157	\$8,595	\$183,650	\$185,900
Indirect	17,663		42,357		8,375		68,395	
Allocated Central Costs	14,296		32,410		7,145		53,851	
Facilities Based	3,367		9,947		1,230		14,544	
TOTAL EXPENSES	\$72,952	\$11,438	\$140,561	\$165,867	\$38,532	\$8,595	\$252,045	\$185,900

	Dentistry Health Care		Medicine Health Care		Pharmacy Health Care		Total Health Care Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
REVENUES								
Direct	\$1,483		\$127,544		\$3,946		\$132,973	
Center	1,483		127,544		3,946		132,973	
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect								
Participation								
Academic Initiatives								
Provost's Initiatives								
Graduate Programs								
TOTAL REVENUES	\$1,483		\$127,544		\$3,946		\$132,973	
EXPENSES								
Direct	\$1,457		\$124,023		\$3,898		\$129,378	
Indirect	26		3,521		48		3,595	
Allocated Central Costs	26		3,521		48		3,595	
Facilities Based								
TOTAL EXPENSES	\$1,483		\$127,544		\$3,946		\$132,973	

2007 AUXILIARIES and ATHLETICS

Individual Revenue Center Summary | 2006-07 Budget | in thousands

	Animal Resources		Hospitality Services		Housing and Residence Halls		Intercollegiate Athletics	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
REVENUES								
Direct	\$479		\$29,784		\$41,093		\$56,423	\$4,722
Center	479		29,784		41,093		56,423	4,722
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect								
Participation								
Academic Initiatives								
Provost's Initiatives								
Graduate Programs								
TOTAL REVENUES	\$479		\$29,784		\$41,093		\$56,423	\$4,722
EXPENSES								
Direct	(\$1,027)		\$26,884		\$33,409		\$49,029	\$4,722
Indirect	1,506		2,900		7,684		7,394	
Allocated Central Costs	578		2,014		4,568		5,093	
Facilities Based	928		886		3,116		2,301	
TOTAL EXPENSES	\$479		\$29,784		\$41,093		\$56,423	\$4,722

	KUSC		Student Health and Counseling Services		Transportation Services		University Bookstores	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
REVENUES								
Direct	\$5,323	\$407	\$30,134		\$17,106		\$48,462	
Center	5,323	407	30,134		17,106		48,462	
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect								
Participation								
Academic Initiatives								
Provost's Initiatives								
Graduate Programs								
TOTAL REVENUES	\$5,323	\$407	\$30,134		\$17,106		\$48,462	
EXPENSES								
Direct	\$4,760	\$407	\$28,141		\$12,530		\$45,314	
Indirect	563		1,993		4,576		3,148	
Allocated Central Costs	563		1,643		3,460		2,620	
Facilities Based			350		1,116		528	
TOTAL EXPENSES	\$5,323	\$407	\$30,134		\$17,106		\$48,462	

	University Club		University Radisson Hotel		University Village		Total Auxiliaries and Athletics	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
REVENUES								
Direct	\$348		\$5,960		\$3,353		\$238,465	\$5,129
Center	348		5,960		3,353		238,465	5,129
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect	100						100	
Participation								
Academic Initiatives	100						100	
Provost's Initiatives								
Graduate Programs								
TOTAL REVENUES	\$448		\$5,960		\$3,353		\$238,565	\$5,129
EXPENSES								
Direct	\$133		\$5,960		\$2,919		\$208,052	\$5,129
Indirect	315				434		30,513	
Allocated Central Costs	216				434		21,189	
Facilities Based	99						9,324	
TOTAL EXPENSES	\$448		\$5,960		\$3,353		\$238,565	\$5,129

2007 CLASSIFICATION by CENTER

2006-07 Budget | in thousands

	Colleges, Schools, Centers and Institutes		Health Sciences Schools		Health Care Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
REVENUES						
Direct	\$675,406	\$257,058	\$245,794	\$185,900	\$132,973	
Center	839,226	257,058	252,290	185,900	132,973	
UG Student Aid Fund	(144,961)		(2,780)			
Facilities Improvement Fund	(18,859)		(3,716)			
Indirect	(23,316)		6,251			
Participation	(51,344)		(13,357)			
Academic Initiatives	34,198		11,585			
Provost's Initiatives	1,822		31			
Graduate Programs	(7,992)		7,992			
TOTAL REVENUES	\$652,090	\$257,058	\$252,045	\$185,900	\$132,973	

	Colleges, Schools, Centers and Institutes		Health Sciences Schools		Health Care Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
EXPENSES						
Direct	\$448,795	\$257,058	\$183,650	\$185,900	\$129,378	
Indirect	203,295		68,395		3,595	
Allocated Central Costs	174,525		53,851		3,595	
Facilities Based	28,770		14,544			
TOTAL EXPENSES	\$652,090	\$257,058	\$252,045	\$185,900	\$132,973	

	Auxiliaries and Athletics		Total Revenue Centers		Administrative Centers	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
REVENUES						
Direct	\$238,465	\$5,129	\$1,292,638	\$448,087	\$64,782	\$21,305
Center	238,465	5,129	1,462,954	448,087	(105,534)	21,305
UG Student Aid Fund			(147,741)		147,741	
Facilities Improvement Fund			(22,575)		22,575	
Indirect	100		(16,965)		340	
Participation			(64,701)			
Academic Initiatives	100		45,883			
Provost's Initiatives			1,853		340	
Graduate Programs						
TOTAL REVENUES	\$238,565	\$5,129	\$1,275,673	\$448,087	\$65,122	\$21,305

	Auxiliaries and Athletics		Total Revenue Centers		Administrative Centers	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
EXPENSES						
Direct	\$208,052	\$5,129	\$969,875	\$448,087	\$370,920	\$21,305
Indirect	30,513		305,798		(305,798)	
Allocated Central Costs	21,189		253,160		(253,160)	
Facilities Based	9,324		52,638		(52,638)	
TOTAL EXPENSES	\$238,565	\$5,129	\$1,275,673	\$448,087	\$65,122	\$21,305

	Provost Funding		Total University	
	Undesignated	Designated	Undesignated	Designated
REVENUES				
Direct	\$6,393		\$1,363,813	\$469,392
Center	6,393		1,363,813	469,392
UG Student Aid Fund				
Facilities Improvement Fund				
Indirect	16,625			
Participation	64,701			
Academic Initiatives	(45,883)			
Provost's Initiatives	(2,193)			
Graduate Programs				
TOTAL REVENUES	\$23,018		\$1,363,813	\$469,392

	Provost Funding		Total University	
	Undesignated	Designated	Undesignated	Designated
EXPENSES				
Direct	\$23,018		\$1,363,813	\$469,392
Indirect				
Allocated Central Costs				
Facilities Based				
TOTAL EXPENSES	\$23,018		\$1,363,813	\$469,392

2007 INDIVIDUAL ADMINISTRATIVE CENTERS by PRESIDENTIAL
and SENIOR VICE PRESIDENTIAL RESPONSIBILITY AREA

2006-07 Budget | in thousands

	Net Operating Budget	Employee Benefits Budget
President:		
President's Office	\$3,214	—
Provost and Senior Vice President for Academic Affairs:		
Academic Senate	\$181	
Academic Services	1,653	
Enrollment Services	15,941	
Emeriti Center	360	
Evaluation Services	103	
Faculty Sabbaticals		\$11,500
Graduate School/Programs	2,515	
Information Technology Services	30,167	
Provost's Office	14,061	
Student Affairs	9,806	347
University Art Galleries	446	
University Libraries	32,061	
USC Stevens	1,706	
TOTAL	\$109,000	\$11,847

	Net Operating Budget	Employee Benefits Budget
Senior Vice President, Administration:		
Administrative Operations	\$2,060	\$3,325
Audit Services	1,429	
Career and Protective Services	26,702	11,184
Center for Work and Family Life		701
Compliance	1,832	
Contracts and Grants	3,353	
General Counsel	8,033	
Senior Vice President's Office	1,834	
University Real Estate	2,880	
TOTAL	\$48,123	\$15,210

	Net Operating Budget	Employee Benefits Budget
Senior Vice President, Finance & CFO:		
Administrative Information Systems	\$11,623	
Budget and Planning	1,600	\$643
Campus Development	1,053	
Comptroller	6,633	224,461
Corporate Expense	17,086	
Facilities Management Services	67,519	
Financial and Business Services	12,515	
Major Maintenance and Renovation	2,057	
Off Campus Facilities	459	
Senior Vice President's Office	2,839	
Tram, Escort Services & Rideshare	2,518	819
Treasurer	1,347	
TOTAL	\$127,249	\$225,923

	Net Operating Budget	Employee Benefits Budget
Senior Vice President, University Advancement:		
Senior Vice President's Office	\$7,532	—

	Net Operating Budget	Employee Benefits Budget
Senior Vice President, University Relations:		
University Relations	\$9,298	
USC Alumni Association	1,382	
TOTAL	\$10,680	—

	Net Operating Budget	Employee Benefits Budget
Employee Benefit Recoveries		(\$252,980)
TOTAL ADMINISTRATIVE CENTERS	\$305,798	—
Undergraduate Student Aid Fund	\$147,741	
Facilities Improvement Fund	22,575	
GRAND TOTAL	\$476,114	—

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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.

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