

UNIVERSITY OF SOUTHERN CALIFORNIA
FINANCIAL REPORT
2005



FOR 125 YEARS

REDEFINING

the FUTURE *of the* RESEARCH UNIVERSITY
while HONORING *its proud* HERITAGE *as one of the oldest*
ACADEMIC INSTITUTIONS *in the* WEST



FINANCIAL INFORMATION

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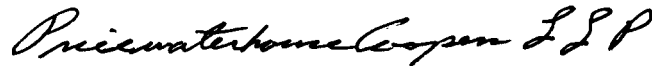
HIGHLIGHTS *of the* UNIVERSITY

	June 30 2005	June 30 2004
FINANCIAL (in thousands)		
Total revenues	\$2,123,486	\$1,935,579
Total cash gifts and equipment gifts	\$291,327	\$291,999
Capital expenditures	\$198,629	\$186,008
Total assets at year end	\$4,933,257	\$4,418,885
Total debt at year end	\$400,872	\$401,199
Increase in net assets	\$510,202	\$390,691
Market value of endowment	\$2,746,051	\$2,399,960
Executed contracts, grants, subcontracts and cooperative agreements	\$804,055	\$765,693
Property, plant and equipment, net	\$1,067,933	\$947,757
Net Asset Balances:		
Unrestricted	\$2,801,140	\$2,365,499
Temporarily restricted	\$186,499	\$155,864
Permanently restricted	\$1,084,280	\$1,040,354
STUDENTS		
Enrollment (head count, autumn):		
Undergraduate students	16,474	16,381
Graduate and professional students	15,686	15,225
Degrees conferred:		
Bachelor degrees	4,139	4,344
Advanced	5,253	4,937
Certificates	191	204
Annual tuition rate	\$29,988	\$28,184
FACULTY AND STAFF		
Faculty	4,390	4,300
Staff	7,834	7,797

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, 2005, 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 2004 financial statements; and in our report dated September 10, 2004, 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 9, 2005

CONSOLIDATED BALANCE SHEET

in thousands

	June 30 2005	June 30 2004
	A	B
ASSETS		
1 Cash and cash equivalents	\$448,271	\$443,956
2 Accounts receivable, [see Note 3]	57,029	59,871
3 Notes receivable, net of allowance for doubtful accounts, \$11,907 (2005), \$11,950 (2004)	97,226	94,802
4 Pledges receivable, [see Note 9]	151,082	125,460
5 Investments, [see Note 4]	3,042,209	2,681,853
6 Inventories, prepaid expenses and other assets	69,507	65,186
7 Property, plant and equipment, net, [see Note 5]	1,067,933	947,757
8 TOTAL ASSETS	<u>\$4,933,257</u>	<u>\$4,418,885</u>
LIABILITIES		
9 Accounts payable	\$60,328	\$65,351
10 Accrued liabilities	77,807	71,976
11 Refundable advances	19,656	23,479
12 Current portion of long-term debt	2,910	3,885
13 Deposits and deferred revenue	65,757	57,639
14 Post-retirement health benefit obligation, [see Note 14]	2,314	2,314
15 Actuarial liability for annuities payable	164,951	169,083
16 Federal student loan funds	62,566	62,116
17 Long-term debt, [see Note 6]	397,962	397,314
18 Other	7,087	4,011
19 TOTAL LIABILITIES	<u>861,338</u>	<u>857,168</u>
NET ASSETS		
20 Unrestricted	2,801,140	2,365,499
21 Temporarily restricted	186,499	155,864
22 Permanently restricted	1,084,280	1,040,354
23 TOTAL NET ASSETS	<u>4,071,919</u>	<u>3,561,717</u>
24 TOTAL LIABILITIES AND NET ASSETS	<u>\$4,933,257</u>	<u>\$4,418,885</u>

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, 2004

	Unrestricted Net Assets				Year Ended June 30, 2005							Year Ended June 30, 2004
	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	\$834,755							\$834,755			\$834,755	\$778,550
2 Less financial aid	(247,955)							(247,955)			(247,955)	(235,970)
3 Net student tuition and fees	586,800							586,800			586,800	542,580
4 Endowment income	31,777		\$24,219					55,996		\$205	56,201	49,168
5 Investment and other income	7,092		2,859	\$10,119			(\$935)	19,135	\$139	267	19,541	13,761
6 Net appreciation (depreciation) in fair value of investments			1,872	(32)		\$329,084		330,924	4,933	2,970	338,827	298,289
7 Government contracts and grants			266,411					266,411			266,411	259,676
8 Recovery of indirect costs	105,260							105,260			105,260	100,152
9 Gifts and pledges	44,233		158,238	18,376	\$3,126			223,973	46,351	46,304	316,628	290,158
10 Sales and service	29,535							29,535			29,535	27,254
11 Auxiliary enterprises	186,554							186,554			186,554	173,258
12 Professional Services Agreements		\$74,095						74,095			74,095	71,512
13 Clinical practices		81,383						81,383			81,383	58,221
14 Loss on the disposal/sale of plant assets					(2,485)			(2,485)			(2,485)	(3,234)
15 Other	68,085							68,085			68,085	58,957
16 Present value adjustment to annuities payable									440	(3,789)	(3,349)	(4,173)
17 Net assets released from restrictions			19,676	1,654		1,929		23,259	(21,228)	(2,031)		
18 TOTAL REVENUES	1,059,336	155,478	473,275	30,117	641	331,013	(935)	2,048,925	30,635	43,926	2,123,486	1,935,579
EXPENSES												
19 Educational and general activities	950,657		416,867		7			1,367,531			1,367,531	1,261,085
20 Health care services		151,049						151,049			151,049	164,629
21 Depreciation					75,785			75,785			75,785	70,605
22 Interest on indebtedness				18,666				18,666			18,666	19,091
23 TOTAL EXPENSES	950,657	151,049	416,867	18,666	75,792			1,613,031			1,613,031	1,515,410
Transfers within Unrestricted Net Assets:												
24 Mandatory transfers for external debt service	(27,426)	(1,145)		28,571								
25 Student loan matching requirement	(184)						184					
26 Unrestricted gifts designated for long-term investment	(14,782)					14,782						
27 Internal loan repayments	(19,200)	(1,367)	(111)	20,678								
28 Accumulated gains used for spending rule	30,746		27,922			(58,668)						
29 Designated support for student aid	37,107		(37,107)									
30 Other miscellaneous nonmandatory transfers	(97,175)	(21,926)	47,751	63,001		8,349						
31 Property, plant and equipment acquisitions	(17,648)	(41)	15,882	(90,663)	92,470							
32 Increase (Decrease) in Net Assets from continuing operations	117	(20,050)	110,745	33,038	17,319	295,476	(751)	435,894	30,635	43,926	510,455	420,169
Loss from discontinued operations of Kenneth Norris Jr.												
33 Cancer Hospital (including loss on disposal of \$21,866 in 2004)		(253)						(253)			(253)	(29,478)
34 Increase (Decrease) in Net Assets	117	(20,303)	110,745	33,038	17,319	295,476	(751)	435,641	30,635	43,926	510,202	390,691
35 Transfer operating surplus to departmental net assets	(117)		117									
36 Beginning Net Assets		(2,354)	337,295	125,157	406,062	1,501,029	(1,690)	2,365,499	155,864	1,040,354	3,561,717	3,171,026
37 ENDING 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
Nature of specific net assets:												
38 Internally designated		(\$35,808)	\$41,267		(\$4,277)		(\$7,085)	(\$5,903)			(\$5,903)	(\$20,309)
39 Gift and departmental			296,119	\$80,488			4,644	381,251			381,251	273,628
40 Externally restricted									\$7,853	\$31,194	39,047	45,962
41 Pledges									118,131	32,951	151,082	125,459
Kenneth Norris Jr. Cancer Hospital –												
42 USC/Norris Cancer Center Foundation		13,151						13,151			13,151	33,405
43 Unexpended endowment income			110,771					110,771			110,771	98,979
44 Annuity and living trusts									60,471	70,633	131,104	125,866
45 True endowment									44	949,502	949,546	898,931
46 Funds functioning as endowment						\$1,796,505		1,796,505			1,796,505	1,501,029
47 Debt service funds				77,707				77,707			77,707	68,435
48 Invested in plant					427,658			427,658			427,658	410,332
49 ENDING 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

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, 2004

	ACADEMIC, HEALTH CARE AND STUDENT SERVICES					SUPPORT SERVICES					Year Ended June 30, 2005 K	Year Ended June 30, 2004 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	\$379,286	\$140,032	\$12,820	\$89,567	\$20,301	\$30,961	\$27,849	\$48,127	\$11,559	\$43,164	\$803,666	\$741,054
2 Fringe benefits	86,409	38,479	3,969	28,305	6,315	10,389	9,414	16,363	3,813	13,100	216,556	198,876
3 Materials and supplies	66,663	73,832	6,396	2,185	7,595	51,386	25,543	10,096	5,094	47,162	295,952	291,885
4 Cost of goods sold	9,265	14,049				627		3,644		49,342	76,927	72,825
5 Utilities						19,811					19,811	19,031
6 Travel	15,587	6,561	207	42	1,107	86	680	606	310	3,688	28,874	24,838
7 Telephone				706		5,902					6,608	8,504
8 Other	27,367			3,748	572		149	5,932	284	7,225	45,277	52,056
9 USC Care purchased services				24,909							24,909	16,645
10	584,577	272,953	23,392	149,462	35,890	119,162	63,635	84,768	21,060	163,681	1,518,580	1,425,714
Allocations:												
11 Depreciation	31,787	13,551	5,094		3,344		3,709	3,048	143	15,109	75,785	70,605
12 Interest	13,313					539		3,775		1,039	18,666	19,091
13 Plant operations and maintenance	53,281	9,476	1,063		5,317	(119,701)	2,488	10,133	155	37,788		
14	\$682,958	\$295,980	\$29,549	\$149,462	\$44,551		\$69,832	\$101,724	\$21,358	\$217,617	\$1,613,031	\$1,515,410

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT of CASH FLOWS

in thousands

	Year Ended June 30, 2005	Year Ended June 30, 2004
	A	B
CASH FLOWS FROM OPERATING ACTIVITIES		
1 Change in Net Assets	\$510,202	\$390,691
Adjustments to reconcile change in net assets to net cash provided by Operating activities:		
2 Depreciation	75,785	70,605
3 Loss on the disposal/sale of plant assets	5,794	2,422
4 Equipment gifts-in-kind	(3,126)	(3,584)
5 Present value adjustment to annuities payable	2,735	4,146
6 Decrease in accounts receivable	2,842	29,207
7 (Increase) decrease in pledges receivable	(25,622)	1,087
8 (Increase) decrease in inventories, prepaid expenses and other assets	(4,321)	1,977
9 (Decrease) increase in accounts payable	(5,023)	10,903
10 Increase in accrued liabilities	5,831	10,264
11 (Decrease) increase in refundable advances	(3,823)	4,214
12 Increase in deferred revenue	8,118	9,412
13 Decrease in post-retirement health benefit obligation		(473)
14 Increase (decrease) in other	3,076	(8,537)
15 Contributions restricted for permanent investment and property, plant and equipment	(67,638)	(56,986)
16 Net realized gain on sale of investments	(206,716)	(111,596)
17 Net unrealized appreciation in investments	(132,276)	(187,008)
18 Loss on disposal of discontinued operations		21,866
19 Net cash provided by operating activities	165,838	188,610
CASH FLOWS FROM INVESTING ACTIVITIES		
20 Proceeds from note collections and sale of notes	18,665	24,286
21 Notes issued	(20,402)	(16,979)
22 Proceeds from disposal of discontinued operations		20,000
23 Deposit in escrow account related to discontinued operations		(4,000)
24 Proceeds from sale of investments	1,945,976	2,338,157
25 Purchase of investments	(1,967,340)	(2,346,463)
26 Purchase of property, plant and equipment, net	(198,629)	(186,008)
27 Net cash used by investing activities	(221,730)	(171,007)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment:		
28 Endowment	51,427	32,308
29 Plant	19,084	14,241
30 Trusts and other	(2,873)	10,437
31 Repayment of long-term debt	(327)	(37,410)
32 Increase in long-term debt		12,795
33 Increase in federal student loan funds	450	65
34 Investment income and (losses) on annuities payable	(3,844)	2,374
35 Payments on annuities payable	(14,985)	(14,035)
36 Increase to annuities payable resulting from new gifts	11,275	31,749
37 Net cash provided by financing activities	60,207	52,524
38 Net increase in cash and cash equivalents	4,315	70,127
39 Cash and cash equivalents at beginning of year	443,956	373,829
40 Cash and cash equivalents at end of year	\$448,271	\$443,956

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, 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

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

restricted net assets.

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, 2005, included in the net appreciation in fair value of investments of \$338,827,000 on the Consolidated Statement of Activities is \$111,287,000 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 Tables.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

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, 2004 from which the summarized financial information was derived. Certain reclassifications have been made to summarized financial information for comparative purposes.

NOTE 2

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. 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, 2004 and 2005, the Hospital has net receivables outstanding of approximately \$2,500,000 and \$0, respectively.

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.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3

Accounts receivable (in thousands):

U.S. Government, net of allowance for doubtful accounts of \$867	\$20,183
Student and other, net of allowance for doubtful accounts of \$6,332	25,391
Patient care and practice plans, net of allowance for doubtful accounts and contractual adjustments of \$17,551	11,455
	<u>\$57,029</u>

NOTE 4

Investments (in thousands):

	Cost	Market
Short-term	\$1,000	\$1,000
Stocks	1,184,613	1,463,298
Bonds:		
U.S. Government	163,422	171,436
Corporate	245,576	248,551
International investments	390,183	574,438
Venture capital	326,903	243,599
Assets held by other trustees	217,069	235,172
Mortgages, notes and other receivables	3,121	3,523
Real estate and other	86,926	101,192
TOTAL	<u>\$2,618,813</u>	<u>\$3,042,209</u>

NOTE 5

Property, plant and equipment (in thousands):

Land and improvements	\$94,772
Building and improvements	1,199,159
Equipment	317,991
Library books and collections	170,839
Construction-in-progress	149,024
	<u>1,931,785</u>
Less: Accumulated depreciation	863,852
	<u>\$1,067,933</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	2006-2016	\$31,800
Discount			(198)
Series 1997C	5.125	2029	50,000
Discount			(1,285)
Series 1998A	5.00	2029	30,360
Series 1999	5.50	2028	60,000
Premium			994
Series 2003A	4.75-5.00	2024, 2034	150,000
Premium			1,985
Series 2003B	5.00	2006-2016	10,935
Premium			1,037
Series 2003C	5.00	2034	50,000
Premium			3,695
<i>University of Southern California Bonds</i>			
Series 1998	5.57-6.26	2009-2019	11,585
Discount			(36)
			400,872
Less current portion of long-term debt			2,910
			<u>\$397,962</u>

Principal payment requirements relating to bonds, notes and mortgages payable, after giving effect to refunding, for the next five fiscal years are approximately: 2006 \$2,910,000; 2007 \$3,070,000; 2008 \$3,245,000; 2009 \$6,430,000; 2010 \$3,610,000.

Interest payments for fiscal year 2005 were \$18,684,000.

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

On June 16, 2005, the university converted CEFA Series 2003C from a variable rate bond issue to long-term fixed rate with a 5% coupon.

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.

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, 2005 consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$140,226	\$64,043	\$204,269
Endowed scholarships	14,543	6,642	21,185
External financial aid	15,447	7,054	22,501
	<u>\$170,216</u>	<u>\$77,739</u>	<u>\$247,955</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	\$862,829	\$1,461,874	\$8,825	\$2,333,528
Non-pooled	86,717	325,806		412,523
	<u>\$949,546</u>	<u>\$1,787,680</u>	<u>\$8,825</u>	<u>\$2,746,051</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 (11%), stocks (52%), international investments (24%), venture capital (11%) and other investments (2%). 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, 2005 was \$515.13.

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 2005 fiscal year, the Board of Trustees approved current distribution of 100% 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 \$102,141,000. Investment income amounting to \$9.74 per time weighted unit was earned, totaling \$43,472,000, and \$58,668,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2005 represent 4.1% of the market value of the endowment pool at June 30, 2005. Total earnings allocated for spending in fiscal year 2005 represent 3.8% of the market value of total endowment at June 30, 2005.

Approximately \$12,657,000 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	\$17,942
Between one year and five years	47,231
More than five years	145,967
Less: discount of \$51,882 and allowance of \$8,175	(60,058)
	<u>\$151,082</u>

Pledges receivable at June 30, 2005 have the following restrictions (in thousands):

Endowment for departmental programs and activities	\$32,186
Endowment for scholarship	2,037
Building construction	6,761
Departmental programs and activities	110,098
	<u>\$151,082</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, 2005 are summarized as follows (in thousands):

Current sponsored awards	\$303,763
Executed grants and contracts for future periods	500,292
	<u>\$804,055</u>

NOTE 11

At June 30, 2005, internal loans for capital investment were \$207,827,000 which are repaid through nonmandatory transfers from the operating budget to unexpended plant within unrestricted net assets. The maturity dates range from 2006 to 2034 with various interest rates.

Internal loans maturing within each of the next five fiscal years range from \$13.1 million to \$23.1 million.

NOTE 12

Contractual commitments for educational plant amounted to approximately \$215,110,000 at June 30, 2005. 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 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 \$56,588,000 during the year ended June 30, 2005.

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, 2005 (in thousands):

Benefit cost	\$5,111
Employer contribution	\$10,250
Benefits paid	\$3,119
Accumulated benefit obligation at end of year	\$142,136
Projected benefit obligation	\$162,632
Fair value of plan assets	145,393
Funded status	(\$17,239)

Items recognized in the consolidated balance sheet:	
Prepaid benefit cost	\$41,207

Weighted-average assumptions:	
Discount rate	5.10%
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, 2005	Target at June 30, 2005
Equity securities	64.8%	60.0%
Debt securities	31.9%	40.0%
Other	3.3%	0.0%
TOTAL	100.0%	100.0%

No contribution to the pension plan is required during the fiscal year ending June 30, 2006. 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,	
2006	\$3,571
2007	\$4,069
2008	\$4,555
2009	\$5,067
2010	\$5,720
2011 - 2015	\$37,195

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

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 two 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, 2005 (in thousands):

Benefit cost	(\$61)
Employer contributions	\$500
Plan participant contributions	\$0
Benefits paid	\$500

Benefit obligation	\$1,208
Fair value of plan assets	0
Funded status	(\$1,208)

Accrued benefit cost recognized in the consolidated balance sheet	(\$2,314)
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Weighted-average assumption:	
Discount rate	4.00%

For measurement purposes, a 6.0% 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 2005. These rates were assumed to decrease gradually to 5.5% by 2006 and remain at that level thereafter.

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

Fiscal Year Ending June 30,	
2006	\$627
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 \$421,932,000 at June 30, 2005. 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.

2006 SUMMARY of BUDGETED OPERATING REVENUES and EXPENSES

2005-06 Budget | in thousands

	Undesignated Budget Education and General			Undesignated Budget Health Care Services			Designated Budget			Total Budget		
	2004-05 Budget	2005-06 Budget	Percent Change	2004-05 Budget	2005-06 Budget	Percent Change	2004-05 Budget	2005-06 Budget	Percent Change	2004-05 Budget	2005-06 Budget	Percent Change
REVENUES												
Tuition and fees	\$832,173	\$898,324	7.95%							\$832,173	\$898,324	7.95%
Less student aid	(207,868)	(223,943)	7.73%	(\$1,482)	(\$740)	(50.07%)	(\$49,508)	(\$48,705)	(1.62%)	(258,858)	(273,388)	5.61%
Net tuition and fees	624,305	674,381	8.02%	(1,482)	(740)	(50.07%)	(49,508)	(48,705)	(1.62%)	573,315	624,936	9.00%
Endowment income	52,861	55,600	5.18%				37,955	40,792	7.47%	90,816	96,392	6.14%
Investment income	6,030	2,885	(52.16%)							6,030	2,885	(52.16%)
Gifts	22,343	25,808	15.51%				94,150	115,337	22.50%	116,493	141,145	21.16%
Contracts and grants – direct							370,511	325,462	(12.16%)	370,511	325,462	(12.16%)
Recovery of indirect costs:												
Contracts and grants	111,215	105,701	(4.96%)							111,215	105,701	(4.96%)
Endowments/Gifts	7,622	8,674	13.80%							7,622	8,674	13.80%
Auxiliary enterprises	181,988	190,059	4.43%	166,986						348,974	190,059	(45.54%)
Sales and service and other sources	46,476	88,291	89.97%	8,268	145,958	>100.00%				54,744	234,249	>100.00%
TOTAL REVENUES	\$1,052,840	\$1,151,399	9.36%	\$173,772	\$145,218	(16.43%)	\$453,108	\$432,886	(4.46%)	\$1,679,720	\$1,729,503	2.96%
EXPENSES												
Compensation:												
Faculty salaries	\$184,114	\$222,780	21.00%	\$80,574	\$68,538	(14.94%)	\$49,268	\$56,829	15.35%	\$313,956	\$348,147	10.89%
Other salaries and wages	305,761	328,335	7.38%	36,430	26,020	(28.58%)	121,791	128,835	5.78%	463,982	483,190	4.14%
Employee benefits	146,920	156,310	6.39%	38,826	30,258	(22.07%)	45,704	48,664	6.48%	231,450	235,232	1.63%
TOTAL COMPENSATION	636,795	707,425	11.09%	155,830	124,816	(19.90%)	216,763	234,328	8.10%	1,009,388	1,066,569	5.66%
Current expense	228,718	258,230	12.90%	9,256	9,063	(2.09%)	184,968	139,977	(24.32%)	422,942	407,270	(3.71%)
Capital financing	57,565	61,195	6.31%	196	6,011	>100.00%	73	454	>100.00%	57,834	67,660	16.99%
Professional services	28,692	30,223	5.34%	4,215	4,377	3.84%	6,923	12,463	80.02%	39,830	47,063	18.16%
Equipment/Library	22,057	22,865	3.66%	10	368	>100.00%	17,493	17,121	(2.13%)	39,560	40,354	2.01%
Utilities/Telephone	29,037	32,926	13.39%							29,037	32,926	13.39%
Off-campus facilities	14,133	15,881	12.37%		329		14,852	13,055	(12.10%)	28,985	29,265	0.97%
Travel	11,460	12,405	8.25%	71	45	(36.62%)	11,771	14,402	22.35%	23,302	26,852	15.23%
Rentals and leases	24,383	10,249	(57.97%)	4,194	209	(95.02%)	265	1,086	>100.00%	28,842	11,544	(59.98%)
TOTAL EXPENSES	\$1,052,840	\$1,151,399	9.36%	\$173,772	\$145,218	(16.43%)	\$453,108	\$432,886	(4.46%)	\$1,679,720	\$1,729,503	2.96%

2006 COLLEGES, SCHOOLS, CENTERS and INSTITUTES

Individual Revenue Center Summary | 2005-06 Budget | in thousands

REVENUES	Annenberg Center for Communication		Annenberg School for Communication		School of Architecture		School of Cinema-Television	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$7,243	\$3,833	\$28,993	\$7,986	\$11,911	\$2,120	\$30,363	\$7,778
Center	7,305	3,833	36,697	7,986	15,878	2,120	38,512	7,778
UG Student Aid Fund	(57)		(6,906)		(3,566)		(7,179)	
Facilities Improvement Fund	(5)		(798)		(401)		(970)	
Indirect	206		(209)		(920)		(1,123)	
Participation	(19)		(1,999)		(990)		(2,403)	
Subvention								
Academic Initiatives	225		24				100	
Graduate Programs			1,766		70		1,180	
TOTAL REVENUES	\$7,449	\$3,833	\$28,784	\$7,986	\$10,991	\$2,120	\$29,240	\$7,778

EXPENSES	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$6,378	\$3,833	\$23,162	\$7,986	\$8,054	\$2,120	\$20,105	\$7,778
Indirect	1,071		5,622		2,937		9,135	
Allocated Central Costs	1,071		5,089		2,647		8,492	
Facilities Based			533		290		643	
TOTAL EXPENSES	\$7,449	\$3,833	\$28,784	\$7,986	\$10,991	\$2,120	\$29,240	\$7,778

REVENUES	Centers for Creative Technology		Davis School of Gerontology		School of Fine Arts		Gould School of Law	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$3,871	\$24,549	\$5,401	\$9,744	\$6,155	\$1,200	\$31,761	\$2,350
Center	3,871	24,549	5,787	9,744	8,656	1,200	32,770	2,350
UG Student Aid Fund			(327)		(2,288)		(252)	
Facilities Improvement Fund			(59)		(213)		(757)	
Indirect	(231)		2,089		(420)		250	
Participation	(231)		(266)		(542)		(1,709)	
Subvention								
Academic Initiatives			1,800				1,869	
Graduate Programs			555		122		90	
TOTAL REVENUES	\$3,640	\$24,549	\$7,490	\$9,744	\$5,735	\$1,200	\$32,011	\$2,350

EXPENSES	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$3,105	\$24,549	\$4,183	\$9,744	\$4,150	\$1,200	\$24,904	\$2,350
Indirect	535		3,307		1,585		7,107	
Allocated Central Costs	535		2,959		1,407		6,372	
Facilities Based			348		178		735	
TOTAL EXPENSES	\$3,640	\$24,549	\$7,490	\$9,744	\$5,735	\$1,200	\$32,011	\$2,350

REVENUES	Graduate Programs		College of Letters, Arts and Sciences		Marshall School of Business		School of Policy, Planning, and Development	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$44,578		\$195,364	\$54,007	\$112,172	\$13,630	\$22,800	\$12,967
Center	44,578		275,969	54,007	139,601	13,630	25,687	12,967
UG Student Aid Fund			(73,941)		(23,900)		(2,175)	
Facilities Improvement Fund			(6,664)		(3,529)		(712)	
Indirect	(43,693)		13,544		(7,600)		(224)	
Participation			(17,711)		(8,601)		(1,679)	
Subvention			1,500					
Academic Initiatives	12,000		2,882					
Graduate Programs	(55,693)		26,873		1,001		1,455	
TOTAL REVENUES	\$885		\$208,908	\$54,007	\$104,572	\$13,630	\$22,576	\$12,967

EXPENSES	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$885		\$145,666	\$54,007	\$77,636	\$13,630	\$16,029	\$12,967
Indirect			63,242		26,936		6,547	
Allocated Central Costs			57,215		25,951		6,324	
Facilities Based			6,027		985		223	
TOTAL EXPENSES	\$885		\$208,908	\$54,007	\$104,572	\$13,630	\$22,576	\$12,967

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	\$21,023	\$2,740	\$16,344	\$5,208	\$1,907		\$8,807	\$430
Center	22,661	2,740	16,891	5,208	1,933		12,538	430
UG Student Aid Fund	(1,084)		(76)				(3,432)	
Facilities Improvement Fund	(554)		(471)		(26)		(299)	
Indirect	(661)		(543)				(337)	
Participation	(1,381)		(1,084)				(765)	
Subvention								
Academic Initiatives	360						200	
Graduate Programs	360		541				228	
TOTAL REVENUES	\$20,362	\$2,740	\$15,801	\$5,208	\$1,907		\$8,470	\$430

EXPENSES	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$15,338	\$2,740	\$11,965	\$5,208	\$1,907		\$6,198	\$430
Indirect	5,024		3,836				2,272	
Allocated Central Costs	4,623		3,698				1,931	
Facilities Based	401		138				341	
TOTAL EXPENSES	\$20,362	\$2,740	\$15,801	\$5,208	\$1,907		\$8,470	\$430

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	\$20,782	\$1,342	\$75,037	\$44,231	\$8,921	\$64,182	\$653,433	\$258,297
Center	27,046	1,342	85,112	44,231	8,921	64,182	810,413	258,297
UG Student Aid Fund	(5,610)		(8,124)				(138,917)	
Facilities Improvement Fund	(654)		(1,951)				(18,063)	
Indirect	2,365		16,084		(483)		(21,906)	
Participation	(1,667)		(5,624)		(483)		(47,154)	
Subvention	600		1,000				3,100	
Academic Initiatives	2,400		6,700				28,560	
Graduate Programs	1,032		14,008				(6,412)	
TOTAL REVENUES	\$23,147	\$1,342	\$91,121	\$44,231	\$8,438	\$64,182	\$631,527	\$258,297

EXPENSES	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$16,542	\$1,342	\$62,200	\$44,231	\$6,400	\$64,182	\$454,807	\$258,297
Indirect	6,605		28,921		2,038		176,720	
Allocated Central Costs	6,064		26,281		2,038		162,697	
Facilities Based	541		2,640				14,023	
TOTAL EXPENSES	\$23,147	\$1,342	\$91,121	\$44,231	\$8,438	\$64,182	\$631,527	\$258,297

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 2005-2006, 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 2005-2006, the rate is 6.1%.

Subvention is allocated from 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. 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 2005-2006 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.

2006 HEALTH SCIENCES SCHOOLS and HEALTH CARE SERVICES

Individual Revenue Center Summary | 2005-06 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	\$48,610	\$12,789	\$16,713	\$1,806	\$126,133	\$123,249	\$38,675	\$9,923
Center	50,521	12,789	17,698	1,806	128,611	123,249	39,405	9,923
UG Student Aid Fund	(778)		(497)		(1,330)			
Facilities Improvement Fund	(1,133)		(488)		(1,148)		(730)	
Indirect	(2,864)		(739)		9,652		(1,469)	
Participation	(3,089)		(1,529)		(5,281)		(2,414)	
Subvention					5,281			
Academic Initiatives					5,200			
Graduate Programs	225		790		4,452		945	
TOTAL REVENUES	\$45,746	\$12,789	\$15,974	\$1,806	\$135,785	\$123,249	\$37,206	\$9,923
EXPENSES								
Direct	\$34,440	\$12,789	\$12,349	\$1,806	\$102,868	\$123,249	\$29,659	\$9,923
Indirect	11,306		3,625		32,917		7,547	
Allocated Central Costs	9,611		3,618		30,454		6,655	
Facilities Based	1,695		7		2,463		892	
TOTAL EXPENSES	\$45,746	\$12,789	\$15,974	\$1,806	\$135,785	\$123,249	\$37,206	\$9,923

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	\$230,131	\$147,767	\$7,547		\$848		\$132,681	
Center	236,235	147,767	7,547		848		132,681	
UG Student Aid Fund	(2,605)							
Facilities Improvement Fund	(3,499)							
Indirect	4,580							
Participation	(12,313)							
Subvention	5,281							
Academic Initiatives	5,200							
Graduate Programs	6,412							
TOTAL REVENUES	\$234,711	\$147,767	\$7,547		\$848		\$132,681	
EXPENSES								
Direct	\$179,316	\$147,767	\$7,521		\$836		\$129,356	
Indirect	55,395		26		12		3,325	
Allocated Central Costs	50,338		26		12		3,325	
Facilities Based	5,057							
TOTAL EXPENSES	\$234,711	\$147,767	\$7,547		\$848		\$132,681	

REVENUES	Pharmacy Health Care		Total Health Care Services	
	Undesignated	Designated	Undesignated	Designated
Direct	\$4,142		\$145,218	
Center	4,142		145,218	
UG Student Aid Fund				
Facilities Improvement Fund				
Indirect				
Participation				
Subvention				
Academic Initiatives				
Graduate Programs				
TOTAL REVENUES	\$4,142		\$145,218	
EXPENSES				
Direct	\$4,097		\$141,810	
Indirect	45		3,408	
Allocated Central Costs	45		3,408	
Facilities Based				
TOTAL EXPENSES	\$4,142		\$145,218	

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

2006 AUXILIARIES and ATHLETICS

Individual Revenue Center Summary | 2005-06 Budget | in thousands

REVENUES	Animal Resources		Hospitality Services		Housing and Residence Halls		Intercollegiate Athletics	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$589		\$28,128		\$36,477		\$34,839	\$4,305
Center	589		28,128		36,477		34,839	4,305
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect					(3,522)			
Participation								
Subvention								
Academic Initiatives					(3,522)			
Graduate Programs								
TOTAL REVENUES	\$589		\$28,128		\$32,955		\$34,839	\$4,305
EXPENSES								
Direct	(\$191)		\$25,972		\$28,711		\$29,188	\$4,305
Indirect	780		2,156		4,244		5,651	
Allocated Central Costs	546		2,155		4,244		4,714	
Facilities Based	234		1				937	
TOTAL EXPENSES	\$589		\$28,128		\$32,955		\$34,839	\$4,305

REVENUES	KUSC		Student Health and Counseling Services		Transportation Services		University Bookstores	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$5,456	\$480	\$27,256		\$16,380		\$44,183	
Center	5,456	480	27,256		16,380		44,183	
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect								
Participation								
Subvention								
Academic Initiatives								
Graduate Programs								
TOTAL REVENUES	\$5,456	\$480	\$27,256		\$16,380		\$44,183	
EXPENSES								
Direct	\$4,925	\$480	\$25,535		\$13,202		\$41,888	
Indirect	531		1,721		3,178		2,295	
Allocated Central Costs	531		1,496		3,140		2,238	
Facilities Based			225		38		57	
TOTAL EXPENSES	\$5,456	\$480	\$27,256		\$16,380		\$44,183	

REVENUES	University Club		University Radisson Hotel		University Village		Total Auxiliaries and Athletics	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Direct	\$218		\$6,057		\$3,075		\$202,658	\$4,785
Center	218		6,057		3,075		202,658	4,785
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect	20						(3,502)	
Participation								
Subvention								
Academic Initiatives								
Graduate Programs								
TOTAL REVENUES	\$238		\$6,057		\$3,075		\$199,156	\$4,785
EXPENSES								
Direct	\$20		\$6,057		\$2,666		\$177,973	\$4,785
Indirect	218		409		409		21,183	
Allocated Central Costs	218		409		409		19,691	
Facilities Based							1,492	
TOTAL EXPENSES	\$238		\$6,057		\$3,075		\$199,156	\$4,785

2006 CLASSIFICATION by CENTER

2005-06 Budget | in thousands

	Colleges, Schools, Centers and Institutes		Health Sciences Schools		Health Care Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
REVENUES						
Direct	\$653,433	\$258,297	\$230,131	\$147,767	\$145,218	
Center	810,413	258,297	236,235	147,767	145,218	
UG Student Aid Fund	(138,917)		(2,605)			
Facilities Improvement Fund	(18,063)		(3,499)			
Indirect	(21,906)		4,580			
Participation	(47,154)		(12,313)			
Subvention	3,100		5,281			
Academic Initiatives	28,560		5,200			
Graduate Programs	(6,412)		6,412			
TOTAL REVENUES	\$631,527	\$258,297	\$234,711	\$147,767	\$145,218	
EXPENSES						
Direct	\$454,807	\$258,297	\$179,316	\$147,767	\$141,810	
Indirect	176,720		55,395		3,408	
Allocated Central Costs	162,697		50,338		3,408	
Facilities Based	14,023		5,057			
TOTAL EXPENSES	\$631,527	\$258,297	\$234,711	\$147,767	\$145,218	

	Auxiliaries and Athletics		Total Revenue Centers		Administrative Centers	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
REVENUES						
Direct	\$202,658	\$4,785	\$1,231,440	\$410,849	\$61,878	\$22,037
Center	202,658	4,785	1,394,524	410,849	(101,206)	22,037
UG Student Aid Fund			(141,522)		141,522	
Facilities Improvement Fund			(21,562)		21,562	
Indirect	(3,502)		(20,828)		3,672	
Participation			(59,467)			
Subvention	(3,522)		4,859		3,522	
Academic Initiatives	20		33,780		150	
Graduate Programs						
TOTAL REVENUES	\$199,156	\$4,785	\$1,210,612	\$410,849	\$65,550	\$22,037
EXPENSES						
Direct	\$177,973	\$4,785	\$953,906	\$410,849	\$322,256	\$22,037
Indirect	21,183		256,706		(256,706)	
Allocated Central Costs	19,691		236,134		(236,134)	
Facilities Based	1,492		20,572		(20,572)	
TOTAL EXPENSES	\$199,156	\$4,785	\$1,210,612	\$410,849	\$65,550	\$22,037

	Subvention Pool		Total University	
	Undesignated	Designated	Undesignated	Designated
REVENUES				
Direct	\$3,299		\$1,296,617	\$432,886
Center	3,299		1,296,617	432,886
UG Student Aid Fund				
Facilities Improvement Fund				
Indirect	17,156			
Participation	59,467			
Subvention	(8,381)			
Academic Initiatives	(33,930)			
Graduate Programs				
TOTAL REVENUES	\$20,455		\$1,296,617	\$432,886
EXPENSES				
Direct	\$20,455		\$1,296,617	\$432,886
Indirect				
Allocated Central Costs				
Facilities Based				
TOTAL EXPENSES	\$20,455		\$1,296,617	\$432,886

2006 INDIVIDUAL ADMINISTRATIVE CENTERS by PRESIDENTIAL and SENIOR VICE PRESIDENTIAL RESPONSIBILITY AREA

2005-06 Budget | in thousands

	Net Operating Budget	Employee Benefits Budget
President:		
President's Office	\$3,127	—
Provost and Senior Vice President, Academic Affairs:		
Academic Senate	\$185	
Academic Services	2,196	
Enrollment Services	9,681	
Emeriti Center	221	
Evaluation Services	100	
Faculty Sabbaticals		\$9,368
Graduate School/Programs	2,384	3,000
Provost's Office	10,816	
Student Affairs	12,993	344
University Art Galleries	492	
TOTAL	\$39,068	\$12,712
Academic Affairs and Finance:		
Administrative Information Systems	\$11,718	
Information Services Division	43,376	
TOTAL	\$55,094	—
Senior Vice President, Administration:		
Administrative Operations	\$1,851	\$3,217
Audit Services	1,272	
Career and Protective Services	24,797	12,609
Compliance	1,776	
Contracts and Grants	3,108	
Faculty and Staff Counseling		424
General Counsel	7,922	
Senior Vice President's Office	1,704	
Technology Licensing	702	
University Real Estate	2,575	
TOTAL	\$45,707	\$16,250

	Net Operating Budget	Employee Benefits Budget
Senior Vice President, Finance & CFO:		
Budget and Planning	\$1,378	\$596
Campus Development	990	
Comptroller	5,952	220,011
Corporate Expense	32,830	
Facilities Management Services	33,047	
Financial and Business Services	12,080	
Major Maintenance and Renovation	2,057	
Off Campus Facilities	478	
Senior Vice President's Office	2,846	
Tram, Escort Services & Rideshare	2,284	871
Treasurer	1,769	
TOTAL	\$95,711	\$221,478

Senior Vice President, University Advancement:		
Senior Vice President's Office	\$7,519	—

Senior Vice President, University Relations:		
University Relations	\$9,033	
USC Alumni Association	1,447	
TOTAL	\$10,480	—

Employee Benefit Recoveries		(\$250,440)
TOTAL ADMINISTRATIVE CENTERS	\$256,706	

Facilities Improvement Fund	21,562	
Undergraduate Student Aid Fund	\$141,522	
GRAND TOTAL	\$419,790	—

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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.

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.

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

*For information and additional copies
of this report please contact*

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