This document reflects the result of analyses, discussions and review by UCOP staff and PricewaterhouseCoopers (PwC) to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

University of California
GASB 35 Financial Statement Presentation

Issues Resolution Memo No. 101

GASB Statements No. 34 and 35 Presentation Format—Footnotes

Define Issues

The University must develop the presentation format for the footnotes to the primary financial statements to support the reporting standards established by GASB Statements No. 34 and 35. The new reporting standards are required for the fiscal year beginning July 1, 2001, with comparative information for the prior year.

Background

During 1999, the Government Accounting Standards Board (GASB) introduced GASB Statements 34 and 35. These Statements substantially revised the standards for external financial reporting by public institutions.

According to the new standards, the separately issued financial statements of public colleges and universities must include:

- Management's Discussion and Analysis
- Statement of Net Assets
- Statement of Revenues, Expenditures and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

Financial statements must be prepared in accordance with GAAP (generally accepted accounting principles) and are subject to audit under GAAS (generally accepted auditing standards).

In order to assure that all disclosure requirements have been met, the University must develop the presentation format for the footnotes that accompany the primary financial statements.

Authoritative Guidance

Authoritative guidance from GASB Statement No. 34, the June 30, 2000 Exposure Draft of a Proposed Statement, *Certain Financial Statement Note Disclosures*, and the December 29, 2000 Exposure Draft of a Proposed Statement, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* is included in Appendix 1.

Recommended Approach

- The attached exhibit provides a draft template of the footnotes that will accompany the financial statements beginning in the FY 2001-2002 annual report.

The exhibit will be updated, as necessary, to incorporate changes and modifications that continue to be identified through the GASB implementation process.

Next Steps—Required Actions

- UCOP will update the footnote exhibits, as necessary, and post updates on the University's GASB IRM website.
- Between February 1, 2001 and December 31, 2001, UCOP will continue to develop the additional footnotes to support the additional disclosure requirements.

Appendix 1—Authoritative Guidance

GASB Statement No. 34 and Exposure Drafts, *Certain Financial Statement Note Disclosures (June 30, 2000)* and *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus (December 29, 2000)*

Authoritative Guidance—Capital Assets

Reporting Capital Assets

GASB 34, Paragraph 18—Capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, in any.

GASB 34, Paragraph 19—As used in this Statement, the term *capital assets* includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. *Infrastructure assets* are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of this Statement.

GASB 34, Paragraph 20—Capital assets that are being or have been depreciated (paragraph 22) should be reported net of accumulated depreciation in the statement of net assets. (Accumulated depreciation may be reported on the face of the statement or disclosed in the notes.) Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach (paragraphs 23 through 25), should be reported separately if the government has a significant amount of these assets. Capital assets also may be reported in greater detail, such as by major class of asset (for example, infrastructure, buildings and improvements, vehicles, machinery and equipment). Required disclosures are discussed in paragraphs 116 and 117.

GASB 34, Paragraph 21—Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach in paragraphs 23 through 25. Inexhaustible capital assets such as land and land improvements should not be depreciated.

GASB 34, Paragraph 22—Depreciation expense should be reported in the statement of activities as discussed in paragraphs 44 and 45. Depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner. It may be calculated for (a) a class of assets, (b) a network of assets,* (c) a subsystem of a network,** or (d) individual assets. (Composite methods may be used to calculate depreciation expense. See paragraphs 161 through 166 for a more complete discussion of depreciation.)

* A network of assets is composed of all assets that provide a particular type of service for a government. A network of infrastructure assets may be only one infrastructure *asset* that is composed of many *components*. For example, a network of infrastructure assets may be a dam composed of a concrete dam, a concrete spillway, and a series of locks.

** A subsystem of a network of assets is composed of all assets that make up a similar portion or segment of a network of assets. For example, all the roads of a government could be considered a network of infrastructure assets. Interstate highways, state highways, and rural roads could each be considered a subsystem of that network.

Reporting works of art and historical treasures

GASB 34, Paragraph 27—Except as discussed in this paragraph, governments should capitalize works of art, historical treasures, and similar assets at their historical cost or fair value at date of donation (estimated if necessary) whether they are held as individual items or a collection. Governments are encouraged, but not required, to capitalize a collection (and all additions to that collection) whether donated or purchased that meets all of the following conditions.* The collection is:

a. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain

b. Protected, kept unencumbered, cared for, and preserved

c. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Governments should disclose information about their works of art and historical collections as required by paragraph 118.

GASB 34, Paragraph 28—Recipient governments should recognize as revenues donations of works of art, historical treasures, and similar assets, in accordance with Statement 33. When donated collection items are added to noncapitalized collections, governments should recognize program expense equal to the amount of revenues recognized.

GASB 34, Paragraph 29—Capitalized collections or individual items that are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible.

Required Note Disclosures about Capital Assets and Long-Term Liabilities

GASB 34, Paragraph 116—Governments should provide detail in the notes to the financial statements about capital assets and long-term liabilities of the primary government reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets and long-term liabilities as well as between those associated with governmental activities and those associated with business-type activities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated. (See paragraph 20.)

GASB 34, Paragraph 117—Information presented about major classes of capital assets should include:

a. Beginning- and end-of-year balances (regardless of whether beginning-of-year balances are presented on the face of the government-wide financial statement), with accumulated depreciation presented separately from historical cost

b. Capital acquisitions

c. Sales or other dispositions

d. Current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.

GASB 34, Paragraph 118—For collections not capitalized (see paragraphs 27–29), disclosures should provide a description of the collection and the reasons these assets are not capitalized. For collections that are capitalized, governments should make the disclosures required by paragraphs 116 and 117.

<u>**Authoritative Guidance—Indebtedness**</u>

GASB 34, Paragraph 119—Information about long-term liabilities should include both long-term debt (such as bonds, notes, loans, and leases payable) and other long-term liabilities* (such as compensated absences, and claims and judgements). Information presented about long-term liabilities should include:

a. Beginning- and end-of-year balances (regardless of whether prior-year data are presented on the face of the government-wide financial statements)

b. Increases and decreases (separately presented)

c. The portions of each item that are due within one year of the statement date

d. Which governmental funds typically have been used to liquidate other long-term liabilities (such as compensated absences and pension liabilities) in prior years.

GASB 34, Paragraph 120—Determining whether to provide similar disclosures about capital assets and long-term liabilities of discretely presented component units is a matter of professional judgement. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government.

Violations of Finance-Related Legal or Contractual Provisions

Exposure Draft (June 30, 2000), Paragraph 7—Governments should present in their disclosure of significant violations of finance-related legal or contractual provisions, actions taken to address such violations.

Debt and Lease Obligations

Exposure Draft (June 30, 2000), Paragraph 8—Governments should disclose the following details of debt service requirements to maturity:

a. Principal and interest requirements to maturity, presented separately for each of the five succeeding fiscal years and in five-year increments thereafter. Interest requirements for variable-rate debt should be determined using the rate in effect at the financial statement date.
b. The terms by which interest rates change for variable-rate debt.

Short-Term Debt

Exposure Draft (June 30, 2000), Paragraph 10—Governments should provide details in the notes to the financial statements about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. Information presented about short-term debt should include:

a. A schedule of changes in short-term debt, disclosing beginning- and end-of-year balances, increases, and decreases

b. The purpose for which the short-term debt was issued.

Authoritative Guidance—Segments

Segment Information

GASB 34, Paragraph 122—Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. For purposed of this disclosure, a segment is an identifiable activity reported as or within an enterprise fund or an other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding.* A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that can be identified. Segment disclosure requirements should be met by providing condensed financial statements in the notes:

a. Type of goods or services provided by the segment.
b. Condensed statement of net assets:
    (1) Total assets—distinguishing between current assets, capital assets, and other assets. Amounts receivable from other funds or component units should be reported separately.
    (2) Total liabilities—distinguishing between current and long-term amounts. Amounts payable to other funds or component units should be reported separately.
    (3) Total net assets—distinguishing among restricted (separately reporting expendable and nonexpendable components); unrestricted; and amounts invested in capital assets, net of related debt.
c. Condensed statement of revenues, expenses, and changes in net assets:
    (1) Operating revenues (by major source).
    (2) Operating expenses. Depreciation (including any amortization) should be identified separately.
    (3) Operating income (loss).
    (4) Nonoperating revenues (expenses)—with separate reporting of major revenues and expenses.
    (5) Capital contributions and additions to permanent and term endowments.
    (6) Special and extraordinary items.
    (7) Transfers.
    (8) Change in net assets.
    (9) Beginning net assets.
    (10) Ending net assets.
d. Condensed statement of cash flows:
    (1) Net cash provided (used) by:
        (a) Operating activities.
        (b) Noncapital financing activities.
        (c) Capital and related financing activities.
        (d) Investing activities.
    (2) Beginning cash and cash equivalent balances.
    (3) Ending cash and cash equivalent balances.

Determining whether to provide segment disclosures about component units that use enterprise fund accounting and reporting standards is a matter of professional judgement. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government.

GASB 34, Paragraph 123—Governments that want to present disaggregated data for their multiple-function enterprise funds beyond what is required for segment reporting (for example, net program cost information) are encouraged to present (as supplementary information) a statement of activities (as discussed in paragraphs 38-60). Special-purpose governments engaged only in business-type activities (paragraph 138) also are encouraged to present this information.

Definition of a Segment

Exposure Draft (December 29, 2000), Paragraph 15—The second, third, and fourth sentences of paragraph 122 are replaced by the following. Subparagraph a is deleted and subparagraphs b through d are renumbered accordingly.

> For purposes of this disclosure, a segment is an identifiable activity (or grouping of activities) reported as or within an enterprise fund or an other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding.* A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that are required** to be accounted for separately. Disclosure requirements for each segment should be met by identifying the types of goods and services provided and by presenting condensed financial information in the notes, including the elements in a through c below.
>
> * [Footnote 48 remains unchanged.]
>
> ** The requirement for separate accounting should be imposed by an external party. For example, accounting and reporting requirements are commonly set forth in bond indentures.

University of California
Notes to Financial Statements
Years ended June 30, 2002 and 2001

ORGANIZATION

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) are appointed by the governor and approved by the State Senate. Various University programs and capital outlay projects are funded through appropriations from the State's annual Budget Act. The University's financial statements are discretely presented in the State's general purpose financial statements as a component unit.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, an amendment of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, was adopted by the University on July 1, 2001. Statement No. 35 establishes a fundamentally new financial reporting model for all public colleges and universities. Financial reporting requirements include a management's discussion and analysis; basic financial statements consisting of a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows; and notes to the financial statements. In addition, the University of California Retirement System's statements of plans' fiduciary net assets and changes in plans' fiduciary net assets are discretely presented within the University's financial statements.

Statement No. 35 requires the recording of depreciation on capital assets, accrual or deferral of revenue associated with certain grants and contracts, accrual of interest expense, accounting for certain scholarship allowances as a reduction of revenue, classification of federal refundable loans as a liability, and capitalization and depreciation of equipment with a sponsor reversionary interest. Previously, capital assets were not depreciated, but maintained at original cost, excess restricted receipts were included in net assets when received, interest expense was recorded on a cash basis, all scholarship allowances were classified as an operating expense, federal refundable loans were included in net assets, and equipment with a sponsor reversionary interest was expensed.

In accordance with Statement No. 35, the cumulative effect of the accounting changes described above was recorded as an adjustment to the June 30, 2000 net assets as follows (in thousands of dollars):

	University of California	University of California Retirement System
June 30, 2000 fund balances, as previously reported	$ 21,753,099	$ 50,580,077
Cumulative effect of:		
Accumulated depreciation	(7,685,227)	
Deferral of restricted receipts in excess of expenditures	(191,945)	
Accrued interest expense	(53,289)	
Reclassification of federal refundable loans	(181,284)	
Equipment with a sponsor reversionary interest ($71,454 net book value)	164,941	
Reduction in net assets	(7,946,804)	-
June 30, 2000 net assets, restated	$ 13,806,295	$ 50,580,077

Statement No. 35 also requires the University's net assets to be classified into net asset categories rather than by fund group. The effect of reclassifying the June 30, 2000 fund balances into net asset categories, including the cumulative effect of the accounting changes described above, is as follows (in thousands of dollars):

	June 30, 2000 Fund Balances, as Previously Reported	Cumulative Effect of Accounting Changes	Reclassification	June 30, 2000 Net Assets, Restated			
				Invested in Capital Assets, Net	Restricted		Unrestricted
					Nonexpendable	Expendable	
Current:							
Unrestricted	$ 2,023,343		$ (11,445)				$ 2,011,898
Restricted	977,361	$ (191,945)	6,804			$ 792,220	
Loan	339,288	(181,284)				118,784	39,220
Endowment	4,995,163				$ 758,143	3,076,020	1,161,000
Plant	13,417,944	(7,573,575)	4,641	$ 4,728,724		377,221	743,065
Total	$ 21,753,099	$ (7,946,804)	$ -	$ 4,728,724	$ 758,143	$ 4,364,245	$ 3,955,183

There were no reclassifications associated with the University of California Retirement System net assets, previously reported as fund balances.

The University has also restated prior periods for purposes of presenting comparative information for the year ended June 30, 2002. The effect of changes from the adoption of Statements No. 34 and No. 35 on the University's financial statements for the year ended June 30, 2001 is as follows (in thousands of dollars):

	Operating		Nonoperating Revenues (Expenses)	Net Assets
	Revenues	(Expenses)		
Year Ended June 30, 2001				
Effect of:				
Depreciation expense		$ (715,497)		$ (715,497)
Accumulated depreciation on asset disposals			$ 188,837	188,837
Scholarship allowances reclassification	$ (262,596)	262,596		
Other, net	10,845		(3,462)	7,383
Total	$ (251,751)	$ (452,901)	$ 185,375	$ (519,277)

GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*, were also adopted by the

University on July 1, 2001. Statement No. 37 clarifies guidance to be used in preparing management's discussion and analysis and Statement No. 38 modifies, adds and deletes various note disclosure requirements. The implementation of these two statements had no effect on the University's net assets or changes in net assets for the year ended June 30, 2002.

The significant accounting policies of the University are summarized below.

Financial Reporting Entity

The University's financial statements include the accounts of ten campuses, five medical centers and a statewide agricultural extension program. The statement of revenues, expenses and changes in net assets also includes the operational results from three major Department of Energy laboratories administered by the University under contract with the United States Department of Energy. Assets and liabilities of these laboratories are owned by the United States government rather than the University and are therefore not included in the statement of net assets. The operations of most student government or associated student organizations are included in the reporting entity because The Regents has certain fiduciary responsibilities for these organizations. Organizations that are not financially accountable to the University, such as campus foundations and booster and alumni organizations, are not included in the reporting entity. However, cash invested with the University by these organizations, along with the related liability, is included in the statement of net assets. The statement of revenues, expenses and changes in net assets excludes the activities associated with these organizations.

The Regents has fiduciary responsibility for the University of California Retirement System (UCRS) consisting of two defined benefit and two defined contribution plans. The UCRS statement of plans' fiduciary net assets and changes in plans' fiduciary net assets are discretely presented in the University's financial statements.

Other Accounting Policies

Cash. The University considers all balances in demand deposit accounts to be cash. All other highly liquid cash equivalents are considered to be short-term investments.

Investments. Investments are primarily recorded at fair value. Generally, securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted market price of a dealer who regularly trades in the security being valued. Interests in venture capital partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because the venture capital partnerships are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned.

Participants' interest in external mutual funds. Participants in the University's defined contribution retirement plans may invest their contributions in and transfer plan accumulations to funds managed by the Treasurer of The Regents (Treasurer) or to certain external mutual funds on a custodial plan basis.

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

Pledges. Unconditional pledges of private gifts to the University in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including pledges of endowments to be received in future periods and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable. Loans to students are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other University sources. Mortgage loans provided by the Short Term Investment Pool are classified as investments and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

Inventories. Inventories are valued at cost, typically determined under the weighted average method, which is not in excess of net realizable value.

Land, infrastructure, buildings, equipment, libraries and collections. Land, infrastructure, buildings and improvements, equipment, libraries and collections and special collections are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Capital leases are recorded at the present value of future minimal lease payments. Significant additions, replacements, major repairs and renovations are generally capitalized if the cost exceeds $1,500 and if they have a useful life of more than one year. Minor renovations are charged to operations.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

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

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are capitalized and depreciated.

Inexhaustible capital assets, such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections, are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project related borrowings.

Deferred revenue. Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

Federal refundable loans. Certain loans to students are administered by the University with funding primarily supported by the federal government. The University's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

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

Invested in capital assets, net of related debt. This category includes all of the University's capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The University classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally-imposed restrictions that must be retained in perpetuity by the University are classified as nonexpendable net assets. Such assets include the University's permanent endowment funds.

Expendable. Net assets whose use by the University is subject to externally-imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or The Regents. Substantially all unrestricted net assets are allocated for academic and research initiatives or programs, or for capital programs.

Revenues and expenses. Operating revenues includes receipts from student tuition and fees, grants and contracts for specific operating activities and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the University are presented in the statement of revenues, expenses and changes in net assets as operating activities.

In accordance with GASB Statement No. 35, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

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

State capital appropriations, capital gifts and grants and gifts for endowment purposes are classified as other changes in net assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of the University. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations. The State of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue, however the related expenses are incurred to support either educational operations or other specific operating purposes. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred.

Grant and contract revenue. The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with the University's federal cognizant agency, the Department of Health and Human Services. For the fiscal year ended June 30, 2002, the facilities and administrative cost recovery totaled $518.7 million, $416.7 million from federally sponsored programs and $102.0 million from other sponsors. For the year ended June 30, 2001, the facilities and administrative cost recovery totaled $451.7 million, $363.6 million from federally sponsored programs and $88.1 million from other sponsors.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payors, including Medicare, Medi-Cal and others for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement or as additional information becomes available.

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

Scholarship allowances in the following amounts are recorded as an offset to revenues for the years ended June 30, 2002 and 2001 (in thousands of dollars):

	2002	2001
Student tuition and fees	$ 223,077	$ 196,906
Sales and services of auxiliary enterprises	56,595	57,811
Other operating revenues	5,578	7,880
Scholarship allowances	$ 285,250	$ 262,597

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

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

Tax exemption. The University is qualified as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income. The University of California Retirement System plans are qualified under Section 401(a) and the related trusts are tax exempt under Section 501(a) of the Internal Revenue Code.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

Comparative information. Certain reclassifications have been made to the 2001 financial information in order to conform to the 2002 presentation.

New accounting pronouncements. The GASB has issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, effective for years beginning July 1, 2003. Statement No. 39 will require the University's ten legally separate, tax-exempt campus foundations to be presented discretely in the University's financial statements. At June 30, 2001, the date of the most recently available financial information, campus foundations' net assets exceeded $2.26 billion.

1. CASH

The University maintains centralized management for substantially all of its cash. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis. At June 30, 2002 and 2001, the carrying amount of the University's demand deposits, held in nationally recognized banking institutions, was $132.0 million and $152.0 million, respectively, compared to bank balances of $42.0 million and $74.9 million, respectively. Deposits in transit are the primary difference. The FDIC insures the bank balances for at least $400 thousand for both years.

2. INVESTMENTS

The Regents, as the governing Board, is responsible for the management of the University's investments and establishes investment policy, which is carried out by the Treasurer. All of the investments are associated with the Short Term Investment Pool (STIP), General Endowment Pool (GEP), High Income Pool (HIP), UCRS, or are separately invested.

The STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. Cash to provide for payroll, construction expenditures and other operating expenses for campuses and medical centers is invested in the STIP. The UCRS plans' available cash awaiting investment or for administrative expenses is also invested in the STIP. The GEP is the primary investment vehicle for endowed gift funds. The HIP accommodates endowments with high payout requirements.

The GEP and HIP are balanced portfolios in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. The separate investments cannot be pooled due to investment restrictions or income requirements.

Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five years. In addition, The Regents has also authorized loans, primarily to faculty members, under the University's Mortgage Origination Program with terms up to 40 years.

Investments authorized by The Regents for the GEP, HIP, UCRS and other separate investments include equity securities, fixed-income securities and a domestic and foreign indexed fund. The equity portion of the investment portfolio may include both domestic and foreign common and preferred stocks, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy out and international funds. The fixed income portion of the investment portfolio may include both domestic and foreign securities, along with certain AAA-rated mortgage backed securities. These mortgage backed securities are used to diversify the portfolio and reduce market risk exposure. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The University's investment portfolio also includes certain foreign denominated securities. To reduce the exposure to foreign currency fluctuations inherent in such investments, the Treasurer may enter into foreign currency forward contracts and options. Under the investment policies, such instruments are not permitted for speculative use or to create leverage.

The investments that are owned and not lent, or owned and lent for securities collateral, are insured, registered or held in the University's name by the custodial bank as an agent for the University. Investments of cash collateral are held by the custodian and designated as University investments in the records of the custodian. Investments that are not categorized include venture capital/private equity funds, mortgage loans, insurance contracts, other investments and investments owned and lent for cash collateral.

The composition of the University's investments at June 30, 2002 and 2001 is as follows (in thousands of dollars):

	University of California		University of California Retirement System	
	2002	2001	2002	2001
Investment Type				
Equity securities:				
Domestic	$ 2,164,350	$ 2,324,312	$ 19,544,881	$ 21,501,760
Foreign	400,342	418,156	3,712,653	3,895,549
Private	113,802	134,558	617,225	758,203
Fixed income securities:				
U.S. government	2,123,718	3,910,636	8,626,478	11,196,113
Other U.S. dollar denominated	5,998,586	4,876,161	7,412,294	5,280,130
Foreign	33,180	136,309	140,355	956,202
Mortgage loans	461,055	389,089		
Insurance contracts			367,650	299,769
Other investments	186,366	194,229		
UCRS investment in the STIP	(584,752)	(1,749,556)	584,752	1,749,556
Total investments	10,896,647	10,633,894	$ 41,006,288	$ 45,637,282
Less: Current portion	(3,909,817)	(3,086,267)		
Noncurrent portion	$ 6,986,830	$ 7,547,627		

Net depreciation in the fair value of investments during the year ended June 30, 2002 for the University of California and the UCRS was $447.8 million and $5.38 billion, respectively. These amounts include all changes in fair value, including both realized and unrealized gains and losses, that occurred during the year. The calculation of realized gains and losses is independent of the net unrealized appreciation or depreciation in the fair value of investments held at year-end. During the year, the University of California realized a net gain of $120.9 million (on an average cost basis) from the sale of investments. The net gain realized by the UCRS totaled $1.26 billion. The net unrealized depreciation during the year on investments held at year-end by the University of California and the UCRS was $568.7 million and $6.64 billion, respectively.

At June 30, 2002, the University of California and the UCRS had a net unrealized loss on outstanding forward commitments to sell foreign currency of $300 thousand and $2.1 million, respectively. The University of California and the UCRS had a net unrealized gain at June 30, 2001 of $2.6 million and $2.4 million, respectively. Any losses at contract maturity are offset by gains on the currency in the portfolio of foreign securities.

The components of the University's net appreciation (depreciation) of investments for the years ended June 30, 2002 and 2001 are as follows (in thousands of dollars):

	University of California		University of California Retirement System	
	2002	2001	2002	2001
Realized gains on sale of investments	$ 120,855	$ 926,998	$ 1,256,142	$ 7,428,667
Unrealized depreciation	(568,692)	(1,261,947)	(6,638,947)	(12,037,982)
Net depreciation in fair value of investments	$ (447,837)	$ (334,949)	$ (5,382,805)	$ (4,609,315)

The University of California Retirement System's unrealized appreciation (depreciation) on investments held at year end includes amounts related to participants' interest in external mutual funds that are not managed by the Treasurer. The unrealized depreciation related to the participants' interest in external mutual funds was $261.3 million and $470.2 million at June 30, 2002 and 2001, respectively.

The composition of the University of California's investments at June 30, 2002 by investment pool is as follows (in thousands of dollars):

	University of California				
	STIP	GEP	HIP	Separately Invested	Total
Investment Type					
Equity securities:					
Domestic		$ 2,139,377	$ 9,449	$ 15,524	$ 2,164,350
Foreign		400,269		73	400,342
Private		113,802			113,802
Fixed income securities:					
U.S. government	$ 1,356,598	718,977	42,663	5,480	2,123,718
Other U.S. dollar denominated	5,196,293	771,477	28,864	1,952	5,998,586
Foreign		33,152		28	33,180
Mortgage loans	459,625			1,430	461,055
Insurance contracts					
Other investments				186,366	186,366
UCRS investment in the STIP	(584,752)				(584,752)
Total investments	$ 6,427,764	$ 4,177,054	$ 80,976	$ 210,853	$ 10,896,647

The total investment return (loss), representing the combined income plus net appreciation (depreciation) in the fair value of investments, for the year ended June 30, 2002 was (9.5) percent for the GEP, 6.8 percent for the HIP and (8.5) percent for the UCRS. The investment return, representing combined income and realized gains or losses, for the same period was 5.0 percent for the STIP. Separate investments consist of numerous, small portfolios of investments, each with its individual rate of return.

The UCRS Investment in the STIP

The UCRS invests available cash in the STIP. Shares are purchased or redeemed in the STIP at a constant value of $1 per share. Actual income earned, including any realized gains or losses on the sale of the STIP investments, is allocated to the UCRS based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in the STIP are not allocated to the UCRS, but are absorbed by the University of California as the manager of the pool.

The UCRS had $584.8 million and $1.75 billion invested in the STIP at June 30, 2002 and 2001, respectively. These investments are included in the UCRS' statements of net plans' fiduciary assets.

Agency Relationships with the University

The STIP, GEP and HIP may include investments on behalf of organizations that are not financially accountable to the University, primarily certain campus foundations. These organizations are not required to invest in these pools and receive no guarantee to support the value of shares. Participants purchase or redeem shares in the STIP at a constant value of $1 per share. Participants purchase or redeem shares in the GEP and the HIP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The fair value of the investments in each investment pool and the related liability associated with these organizations that are included in the University's statement of net assets at June 30, 2002 and 2001 is as follows (in thousands of dollars):

	2002	2001
Assets		
Short-term investments:		
STIP	$ 289,927	$ 208,447
GEP	450,996	455,947
HIP	15,210	29,620
Separately invested	4,145	14,455
Total agency assets	$ 760,278	$ 708,469
Liabilities		
Funds held for others:		
Campus foundations	$ 741,341	$ 697,165
Other organizations	18,937	11,304
Total funds held for others	$ 760,278	$ 708,469

The composition of the net assets at June 30, 2002 and 2001 for the STIP, GEP and HIP is as follows (in thousands of dollars):

	STIP		GEP		HIP	
	2002	2001	2002	2001	2002	2001
Investments	$ 7,020,494	$ 7,472,744	$ 4,176,877	$ 4,590,885	$ 81,115	$ 98,052
Investments in the STIP			381,755	165,252	2,878	2,024
Investment of cash collateral	1,919,623	2,280,089	732,988	797,740	37,603	37,220
Other assets (liabilities), net	141,117	551,552	(316,602)	(59,704)	(1,411)	(1,616)
Securities lending collateral	(1,927,601)	(2,279,780)	(736,377)	(797,632)	(37,759)	(37,215)
Net assets	$ 7,153,633	$ 8,024,605	$ 4,238,641	$ 4,696,541	$ 82,426	$ 98,465

The changes in net assets for the STIP, GEP and HIP for the years ending June 30, 2002 and 2001 are as follows (in thousands of dollars):

	STIP		GEP		HIP	
	2002	2001	2002	2001	2002	2001
Net assets, beginning of year	$ 8,024,605	$ 7,561,044	$ 4,696,541	$ 5,055,665	$ 98,465	$ 115,263
Participant contributions (withdrawals), net	(1,281,865)	(119,086)	73,700	139,689	(17,033)	(22,470)
Investment income	321,905	446,187	15,845	18,898	585	689
Net appreciation (depreciation) in fair value of investments	88,988	136,460	(547,445)	(517,711)	409	4,983
Net assets, end of year	$ 7,153,633	$ 8,024,605	$ 4,238,641	$ 4,696,541	$ 82,426	$ 98,465

3. SECURITIES LENDING

The University participates in a securities lending program as a means to augment income. Securities are lent to select brokerage firms for which collateral is received in excess of the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. Government or its agencies, or the sovereign or provincial debt of foreign countries. Any collateral securities cannot be pledged or sold by the University unless the borrower defaults.

Loans of domestic equities and all fixed income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100 percent of the fair value of securities lent.

Securities loans immediately terminate upon notice by either the University or the borrower. Cash collateral received from the borrower, shown as collateral held for securities lending in the financial statements, is invested by the lending agent, as an agent for the University, in a short-term investment pool in the name of the University, with guidelines approved by the University. These short-term investments are shown as investment of cash collateral in the financial statements. At June 30, 2002 and 2001, the securities in this pool had a weighted average maturity of 172 and 142 days, respectively.

Securities lending transactions at June 30, 2002 and 2001 are as follows (in thousands of dollars):

	University of California		University of California Retirement System	
	2002	2001	2002	2001
Securities Lent				
For cash collateral:				
Equity securities:				
Domestic	$ 39,312	$ 61,267	$ 477,908	$ 558,522
Foreign	43,312	43,308	415,043	411,862
Fixed income securities:				
U.S. government	2,429,483	2,835,874	6,728,704	7,672,588
Other U.S. dollar denominated	128,236	19,244	84,439	51,494
Foreign		48,798		342,383
Lent for cash collateral	2,640,343	3,008,491	7,706,094	9,036,849
For securities collateral:				
Equity securities:				
Domestic	5,999	2,195	1,559	20,008
Foreign	6,057	643		6,113
Fixed income securities:				
U.S. government	93,213	207,386	456,472	561,092
Other U.S. dollar denominated	1,034			
Foreign		5,150		36,136
Lent for securities collateral	106,303	215,374	458,031	623,349
Total securities lent	$ 2,746,646	$ 3,223,865	$ 8,164,125	$ 9,660,198
Collateral Received				
Cash	$ 2,700,486	$ 3,111,950	$ 7,888,319	$ 9,347,615
Securities	113,714	215,896	466,248	648,506
Total collateral received	$ 2,814,200	$ 3,327,846	$ 8,354,567	$ 9,996,121
Investment of Cash Collateral				
Current	$ 2,343,698	$ 2,836,223		
Noncurrent	358,039	278,403		
UCRS			$ 7,891,970	$ 9,355,655
Total investment of cash collateral	$ 2,701,737	$ 3,114,626	$ 7,891,970	$ 9,355,655

Securities on loan for cash collateral are not considered to be categorized. At June 30, 2002, the University had no credit risk exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University. The University is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to provide a fee and rebate to the borrower. The University receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2002 and 2001 are as follows (in thousands of dollars):

	University of California		University of California Retirement System	
	2002	2001	2002	2001
Securities lending income	$ 76,962	$ 144,773	$ 239,362	$ 531,612
Securities lending fees and rebates	(66,683)	(138,086)	(207,633)	(507,970)
Securities lending investment income, net	$ 10,279	$ 6,687	$ 31,729	$ 23,642

4. INVESTMENTS HELD BY TRUSTEES

The University has entered into agreements with trustees to maintain trusts for the University's self-insurance programs and for long-term debt requirements. All investments held by trustees are insured, registered or held by the University's trustee or custodial bank, as fiduciary for the bondholder or as agent for the University.

Self-Insurance Programs

Investments held by trustees include separate trusts for self-insured workers' compensation and professional medical and hospital liability programs. The trust agreements permit the trustee to invest in U.S. and state government or agency obligations, corporate debt securities, commercial paper or certificates of deposit. The fair value of these investments was $289.6 million and $249.5 million at June 30, 2002 and 2001, respectively. Floating rate notes and collateralized mortgage obligations, with underlying government agency collateral or credit ratings ranging from A to AAA, are utilized within the investment constraints in order to enhance investment returns over other high-grade fixed income asset classes. At June 30, 2002, the trustees held floating rate notes representing 21 percent of the combined self-insurance trust portfolios (6 percent at June 30, 2001) and collateralized mortgage obligations representing 73 percent of the combined self-insurance trust portfolios (56 percent at June 30, 2001).

Long-Term Debt

The trust agreements for long-term debt permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

Investments held by trustees are for future payment of principal and interest in accordance with various indenture and other long-term debt requirements. The fair value of these investments was $172.5 million and $167.0 million at June 30, 2002 and 2001, respectively.

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

5. ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2002 and 2001 are as follows (in thousands of dollars):

	State and Federal Government	Medical Centers	Investment Income	Other	Total
At June 30, 2002					
Accounts receivable	$ 465,027	$ 741,891	$ 90,681	$ 821,140	$ 2,118,739
Allowance for uncollectible amounts	(230)	(144,136)		(133,762)	(278,128)
Accounts receivable, net	$ 464,797	$ 597,755	$ 90,681	$ 687,378	$ 1,840,611
At June 30, 2001					
Accounts receivable	$ 502,796	$ 664,996	$ 103,943	$ 587,441	$ 1,859,176
Allowance for uncollectible amounts	(37)	(125,575)		(56,646)	(182,258)
Accounts receivable, net	$ 502,759	$ 539,421	$ 103,943	$ 530,795	$ 1,676,918

Other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, pledges, investment sales, tuition and fees and auxiliary enterprises.

Retirement System Contribution

The State of California agreed to make contributions related to certain prior years to the University for the University of California Retirement Plan in annual installments over 30 years. During each of the years ended June 30, 2002 and 2001, under the terms of these agreements, the State of California contributed $11.3 million, including interest at rates ranging from 8.0 percent to 8.5 percent. At June 30, 2002 and 2001, the remaining amounts owed to the retirement plan by the State were $91.0 million and $94.5 million, respectively. These amounts are recorded in the University's statement of net assets as a receivable from the State of California and as a liability owed to the University of California Retirement Plan. The University of California Retirement Plan has the equivalent amounts recorded as a contribution receivable from the University in its statement of plans' fiduciary net assets.

6. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2002 and 2001, along with the following allowances for uncollectible amounts, are as follows (in thousands of dollars):

		Noncurrent		
	Current	Notes	Mortgages	Total
At June 30, 2002				
Notes and mortgages receivable	$ 49,221	$ 237,991	$ 29,744	$ 267,735
Allowance for uncollectible amounts	(6,098)	(13,920)	(318)	(14,238)
Notes and mortgages receivable, net	$ 43,123	$ 224,071	$ 29,426	$ 253,497
At June 30, 2001				
Notes and mortgages receivable	$ 56,032	$ 225,046	$ 28,759	$ 253,805
Allowance for uncollectible amounts	(5,187)	(9,783)	(13)	(9,796)
Notes and mortgages receivable, net	$ 50,845	$ 215,263	$ 28,746	$ 244,009

7. LAND, INFRASTRUCTURE, BUILDINGS, EQUIPMENT, LIBRARIES AND COLLECTIONS

The University's capital asset activity for the years ended June 30, 2002 and 2001 is as follows (in thousands of dollars):

	2000	Additions	Disposals	2001	Additions	Disposals	2002
Original Cost							
Land	$ 323,141	$ 10,846	$ (2,058)	$ 331,929	$ 14,789	$ (1,407)	$ 345,311
Infrastructure	258,321	19,159	(490)	276,990	13,610	(547)	290,053
Buildings and improvements	9,436,845	495,080	(11,210)	9,920,715	615,953	(19,324)	10,517,344
Equipment	3,622,815	481,332	(245,644)	3,858,503	421,407	(261,228)	4,018,682
Libraries and collections	2,260,930	88,360		2,349,290	120,977		2,470,267
Special collections	184,403	13,598		198,001	7,806	(419)	205,388
Construction in progress	943,869	492,053		1,435,922	791,307		2,227,229
Capital assets, at original cost	$ 17,030,324	$ 1,600,428	$ (259,402)	$ 18,371,350	$ 1,985,849	$ (282,925)	$ 20,074,274

	2000	Depreciation and Amortization	Disposals	2001	Depreciation and Amortization	Disposals	2002
Accumulated Depreciation and Amortization							
Infrastructure	$ 112,566	$ 9,092	$ (285)	$ 121,373	$ 9,462	$ (522)	$ 130,313
Buildings and improvements	3,591,811	313,527	(6,606)	3,898,732	335,428	(12,445)	4,221,715
Equipment	2,497,277	298,456	(181,946)	2,613,787	312,993	(240,741)	2,686,039
Libraries and collections	1,483,573	94,422		1,577,995	96,159		1,674,154
Accumulated depreciation and amortization	$ 7,685,227	$ 715,497	$ (188,837)	$ 8,211,887	$ 754,042	$ (253,708)	$ 8,712,221
Capital assets, net	$ 9,345,097			$ 10,159,463			$ 11,362,053

8. DEBT

The University may finance the construction, renovation and acquisition of certain facilities and equipment through the issuance of debt obligations. Commercial paper provides for interim financing. Long-term financing includes revenue bonds, certificates of participation, mortgages and other borrowings and capital lease obligations.

The University's outstanding debt at June 30, 2002 and 2001 is as follows (in thousands of dollars):

	Interest Rates	Maturity Years	2002	2001
Interim Financing:				
Commercial paper	1.0–2.0%	2003	$ 550,000	$ 550,000
Long-term Financing:				
University of California Multiple Purpose Projects Revenue Bonds	3.5–12.0%	2002–2030	$ 2,231,500	$ 2,104,410
University of California Housing System Revenue Bonds	5.0–8.0%	2002–2018	190,525	201,470
University of California Hospital Revenue Bonds	3.6–10.0%	2002–2031	642,725	623,365
University of California Research Facilities Revenue Bonds	4.1–10.0%	2002–2031	299,525	180,200
University of California Bonds for Student Centers	5.7–5.8%	2002–2007	730	840
Revenue bonds collateralized by purchased faculty mortgage loans	6.9–7.8%	2002–2017	955	1,605
Revenue bonds			3,365,960	3,111,890
Certificates of participation	3.3–10.0%	2002–2032	329,475	294,065
Mortgages and other borrowings	Various	2002–2012	134,482	50,686
Capital lease obligations	3.8–7.4%	2002–2023	1,112,201	1,164,555
Total outstanding debt			5,492,118	5,171,196
Less: Commercial paper			(550,000)	(550,000)
Current portion of outstanding debt			(238,738)	(154,983)
Total long-term debt			$ 4,703,380	$ 4,466,213

Total interest expense during the years ended June 30, 2002 and 2001 was $264.8 million and $272.9 million, respectively. Interest expense of $8.4 million and $12.0 million associated with financing projects during the construction phase was capitalized during the years ended June 30, 2002 and 2001, respectively. The remaining $256.4 million in 2002 and $260.9 million in 2001 is reported as interest expense in the statement of revenues, expenses and changes in net assets.

Outstanding Debt Activity

The activity with respect to the University's current and noncurrent debt for the years ended June 30, 2002 and 2001 is as follows (in thousands of dollars):

	Revenue Bonds	Certificates of Participation	Mortgages and Other Borrowings	Capital Lease Obligations	Total
Year Ended June 30, 2002					
Current portion at June 30, 2001	$ 77,250	$ 10,045	$ 5,003	$ 62,685	$ 154,983
Reclassification from noncurrent	89,615	11,440	85,452	79,703	266,210
Principal payments	(77,900)	(10,045)	(16,836)	(77,674)	(182,455)
Current portion at June 30, 2002	$ 88,965	$ 11,440	$ 73,619	$ 64,714	$ 238,738
Noncurrent portion at June 30, 2001	$ 3,034,640	$ 284,020	$ 45,684	$ 1,101,869	$ 4,466,213
New obligations	331,970	45,455	100,631	25,321	503,377
Reclassification to current	(89,615)	(11,440)	(85,452)	(79,703)	(266,210)
Noncurrent portion at June 30, 2002	$ 3,276,995	$ 318,035	$ 60,863	$ 1,047,487	$ 4,703,380
Year Ended June 30, 2001					
Current portion at June 30, 2000	$ 64,770	$ 10,800	$ 22,026	$ 65,071	$ 162,667
Reclassification from noncurrent	82,855	10,045	94,046	68,936	255,882
Principal payments	(70,375)	(10,800)	(111,069)	(71,322)	(263,566)
Current portion at June 30, 2001	$ 77,250	$ 10,045	$ 5,003	$ 62,685	$ 154,983
Noncurrent portion at June 30, 2000	$ 2,689,230	$ 294,065	$ 128,139	$ 1,146,546	$ 4,257,980
New obligations	428,265		11,591	24,259	464,115
Reclassification to current	(82,855)	(10,045)	(94,046)	(68,936)	(255,882)
Noncurrent portion at June 30, 2001	$ 3,034,640	$ 284,020	$ 45,684	$ 1,101,869	$ 4,466,213

Commercial Paper

The University has available a $550.0 million commercial paper program with tax-exempt and taxable components. The program's liquidity is supported by the legally available unrestricted investments in the STIP. Commercial paper is collateralized by a pledge of the net revenues generated by the enterprise financed, not by any encumbrance, mortgage or other pledge of property and does not constitute a general obligation of the University.

Commercial paper outstanding, including interest rates, at June 30, 2002 and 2001 is as follows (in thousands of dollars):

	2002		2001	
	Interest Rates	Outstanding	Interest Rates	Outstanding
Tax-exempt	1.0 – 1.5%	$ 430,000	2.4 – 3.0%	$ 430,000
Taxable	1.2 – 2.0%	120,000	3.7 – 4.2%	120,000
Total outstanding		$ 550,000		$ 550,000

Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic and research facilities of the University. They have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions.

Revenue bonds for medical centers and auxiliary enterprises are collateralized by a pledge of the net revenues generated by the enterprises. Revenue bonds for research facilities and certain revenue bonds for administrative and academic facilities are collateralized by a pledge of the University's share of facilities and administrative recoveries received on federal research grants and contracts performed by the University. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents.

The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues after expenses and requirements for senior lien indentures equal to 1.25 times debt service and maintain certain other financial covenants. The Hospital Revenue Bonds require the University to achieve debt service coverage of 1.1 times to 1.2 times (depending on the indenture), set limitations on encumbrances, indebtedness, disposition of assets and transfer services and maintain certain other financial covenants. The Multiple Purpose Revenue Bond and Hospital Revenue Bond indentures require the University to use the facilities in a way which will not cause the interest on the bonds to be included in the gross income of the holders of the bonds for federal tax purposes.

In July 2002, Multiple Purpose Projects Revenue Bonds totaling $365.9 million were issued to finance and refinance the acquisition, construction, renovation and improvement of certain facilities of the University, including student housing, faculty housing, parking facilities, student centers, recreation and events facilities, student health services facilities, telecommunications facilities and certain academic and administrative facilities. Proceeds are available to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $326.4 million. The bonds maturing at various dates through 2034 totaling $346.0 million have a weighted average interest rate of 5.0 percent. The bonds maturing at various dates through 2019 totaling $19.9 million have a weighted average interest rate of 4.4 percent.

In March 2002, Hospital Revenue Bonds totaling $32.4 million were issued to refinance the acquisition of the Santa Monica–UCLA Medical Center. Proceeds were used to repay the outstanding interim commercial paper financing of $32.4 million. The bonds mature at various dates through 2009 and have a weighted average interest rate of 4.5 percent.

In December 2001, the University issued $122.8 million of Research Facility Revenue Bonds with a weighted average interest rate of 4.9 percent to finance and refinance the acquisition, construction and equipping of certain research facilities. The bonds mature at various dates through 2031. Proceeds were used to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $9.5 million.

In October 2001, Multiple Purpose Projects Revenue Bonds totaling $44.8 million were used to finance the acquisition, construction, renovation and improvement of facility renewal projects of the University. Proceeds were used to pay for project construction and issuance costs. The bonds mature at various dates through 2016 and have a weighted average interest rate of 3.9 percent.

In July 2001, Multiple Purpose Projects Revenue Bonds totaling $131.9 million were issued to finance and refinance the acquisition, construction, renovation and improvement of certain facilities of the University, including student housing, parking facilities, student centers, events facilities and certain academic and administrative facilities. Proceeds were used to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $90.4 million. The bonds mature at various dates through 2030 and have a weighted average interest rate of 5.1 percent.

In December 2000, Hospital Revenue Bonds totaling $69.0 million were issued to refinance the acquisition, construction, and equipping of the Thornton Hospital, a part of the University of California, San Diego Medical Center. Proceeds were used to prepay the outstanding note on the Thornton Hospital. The bonds mature at various dates through 2019 and have a weighted average interest rate of 5.2 percent.

In September 2000, Multiple Purpose Projects Revenue Bonds totaling $359.3 million were issued to finance and refinance the acquisition, construction, renovation and improvement of certain facilities of the University, including student housing, faculty housing, parking facilities, student centers, recreation and events facilities and certain academic and administrative facilities. Proceeds were used to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds, including outstanding bank loans of $19.5 million and commercial paper of $236.8 million. The bonds mature at various dates through 2029 and have a weighted average interest rate of 5.1 percent.

Certificates of Participation

Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are collateralized by buildings and equipment. A portion of the rental payments are provided to the University by a State of California financing appropriation totaling $4.9 million and $4.5 million for the years ended June 30, 2002 and 2001, respectively. All rental payments, including those from any lawfully available cash of The Regents, have been pledged and assigned to a trustee by the lessor.

In January 2002, the University issued $45.5 million of certificates of participation with a weighted average interest rate of 5.1 percent to finance and refinance the acquisition, construction and equipping of a congeneration facility addition located at the San Diego campus and an office building in Sacramento, California. Proceeds were used to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the certificates, including commercial paper of $44.6 million.

Mortgages and Other Borrowings

Mortgages and other borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are collateralized by real property.

The University may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper to provide interim financing for buildings and equipment. Line of credit commitments, with various expiration dates through April 2005, total $683.4 million at June 30, 2002. Outstanding borrowing under these bank lines totaled $101.6 million and $22.7 million at June 30, 2002 and 2001, respectively, and are included in mortgages and other borrowings.

Capital Leases

The University has entered into lease-purchase agreements with the State of California that are recorded as capital leases. The State sells lease revenue bonds to finance construction and equipping of certain State-owned buildings to be used by the University. During the construction phase, the University acts as agent for the State. Upon completion, the buildings and equipment are leased to the University under terms and amounts that are sufficient to satisfy the State's lease revenue bond requirements with the understanding that the State will provide financing appropriations to the University to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to the University.

The State of California financing appropriation to the University under the terms of the lease-purchase agreements, recorded as nonoperating revenue in the statement of revenues, expenses and changes in net assets, for the years ended June 30, 2002 and 2001 was $99.5 million and $99.9 million, respectively. The principal and interest, including accrued interest, reported in the University's financial statements for the years ended June 30, 2002 and 2001 contain amounts related to these lease-purchase agreements with the State of California as follows (in thousands of dollars):

	2002	2001
Capital lease principal	$ 41,332	$ 41,745
Capital lease interest	59,025	60,806
	$ 100,357	$ 102,551

Capital leases entered into with other lessors, primarily for equipment, totaled $25.3 million and $24.3 million for the years ended June 30, 2002 and 2001, respectively.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2002 and thereafter are as follows (in thousands of dollars):

Year Ending June 30	Commercial Paper	Revenue Bonds	Certificates of Participation	Mortgages and Other Borrowings	Capital Leases State	Capital Leases Other	Total Payments	Principal	Interest
2003	$ 551,648	$ 265,818	$ 28,723	$ 76,421	$ 101,166	$ 23,549	$ 1,047,325	$ 788,738	$ 258,587
2004		264,756	28,667	40,530	101,177	17,798	452,928	209,462	243,466
2005		264,774	28,577	6,520	100,979	10,760	411,610	179,824	231,786
2006		267,033	28,568	9,105	100,163	5,685	410,554	189,203	221,351
2007		266,967	28,549	4,495	94,520	3,300	397,831	187,117	210,714
2008 - 2012		1,355,720	132,835	4,607	464,802	4,978	1,962,942	1,072,966	889,976
2013 - 2017		1,245,389	110,378		378,103	1,820	1,735,690	1,135,752	599,938
2018 - 2022		883,075	105,825		255,061		1,243,961	907,090	336,871
2023 - 2027		646,739	34,547		41,666		722,952	595,650	127,302
2028 - 2032		223,377	26,634				250,011	226,316	23,695
Total future debt service	551,648	5,683,648	553,303	141,678	1,637,637	67,890	$ 8,635,804	$ 5,492,118	$ 3,143,686
Less: Interest component of future payments	1,648	2,317,688	223,828	7,196	584,985	8,341			
Principal portion of future payments	$ 550,000	$ 3,365,960	$ 329,475	$ 134,482	$ 1,052,652	$ 59,549			

Long-term debt does not include $665 million and $668 million of defeased liabilities at June 30, 2002 and 2001, respectively. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the University's statement of net assets.

9. SELF-INSURANCE AND OTHER LIABILITIES

The University's self insurance and other liabilities, primarily employee leave and other compensated absences with similar characteristics, a contribution owed to the University of California Retirement Plan and accrued interest, at June 30, 2002 and 2001 are as follows (in thousands of dollars):

	2002 Current	2002 Noncurrent	2001 Current	2001 Noncurrent
Self insurance programs	$ 172,147	$ 281,654	$ 142,904	$ 259,906
Other liabilities:				
Compensated absences	252,700	199,659	232,494	186,297
Retirement plan	3,757	87,225	3,474	90,982
Accrued interest	71,918		67,462	
Other	95,211	43,250	91,964	27,463
	$ 595,733	$ 330,134	$ 538,298	$ 304,742

Self Insurance Programs

The University is self-insured for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based upon an independent actuarial determination of the anticipated future payments discounted at rates ranging from 5.25 percent to 7.5 percent for the year ended June 30, 2002 and from 6.25 percent to 7.5 percent for the year ended June 30, 2001. The effect on the estimated liabilities from changing the discount rates was not significant.

Changes in self-insurance liabilities for years ended June 30, 2002 and 2001 are as follows (in thousands of dollars):

	Medical Malpractice	Workers' Compensation	Employee Health Care	General Liability	Total
Year Ended June 30, 2002					
Liabilities at June 30, 2001	$ 151,383	$ 166,784	$ 20,035	$ 64,608	$ 402,810
Claims incurred and changes in estimates	48,882	109,108	102,190	2,449	262,629
Claim payments	(42,180)	(67,130)	(90,936)	(11,392)	(211,638)
Liabilities at June 30, 2002	$ 158,085	$ 208,762	$ 31,289	$ 55,665	$ 453,801
Year Ended June 30, 2001					
Liabilities at June 30, 2000	$ 148,048	$ 126,722	$ 20,413	$ 67,176	$ 362,359
Claims incurred and changes in estimates	50,800	95,300	88,200	13,500	247,800
Claim payments	(47,465)	(55,238)	(88,578)	(16,068)	(207,349)
Liabilities at June 30, 2001	$ 151,383	$ 166,784	$ 20,035	$ 64,608	$ 402,810

Other Noncurrent Liabilities

The activity with respect to other noncurrent liabilities for the years ended June 30, 2002 and 2001 is as follows (in thousands of dollars):

	Compensated Absences	Retirement Plan	Other	Total
Year Ended June 30, 2002				
Liabilities at June 30, 2001	$ 186,297	$ 90,982	$ 27,463	$ 304,742
New obligations	147,707		16,018	163,725
Reclassification to current	(134,345)	(3,757)	(231)	(138,333)
Liabilities at June 30, 2002	$ 199,659	$ 87,225	$ 43,250	$ 330,134
Year Ended June 30, 2001				
Liabilities at June 30, 2000	$ 181,469	$ 94,456	$ 36,133	$ 312,058
New obligations	237,322		2,506	239,828
Reclassification to current	(232,494)	(3,474)	(11,176)	(247,144)
Liabilities at June 30, 2001	$ 186,297	$ 90,982	$ 27,463	$ 304,742

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

10. ENDOWMENTS

The Regents' Endowments

Endowments are administered either by the University or by campus foundations. The financial activities of the separately incorporated campus foundations are not included in the University's financial statements until such time as gifts are transferred from the campus foundations to the University.

The endowments held by The Regents and administered by the University at June 30, 2002 and 2001 are as follows (in thousands of dollars):

	Restricted Nonexpendable		Restricted Expendable		Unrestricted		Total	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
At June 30, 2002								
Endowments	$ 651,333	$ 684,843	$ 1,164,421	$ 1,090,364	$ 26,083	$ 24,835	$ 1,841,837	$ 1,800,042
Funds functioning as endowments			1,268,729	1,283,124	951,872	939,860	2,220,601	2,222,984
Annuity and life income	47,611	122,803					47,611	122,803
The Regents' endowments	$ 698,944	$ 807,646	$ 2,433,150	$ 2,373,488	$ 977,955	$ 964,695	$ 4,110,049	$ 4,145,829
At June 30, 2001								
Endowments	$ 616,504	$ 634,412	$ 1,116,688	$ 1,353,816	$ 23,855	$ 28,945	$ 1,757,047	$ 2,017,173
Funds functioning as endowments			1,242,243	1,472,088	919,305	1,043,448	2,161,548	2,515,536
Annuity and life income	50,229	124,365					50,229	124,365
The Regents' endowments	$ 666,733	$ 758,777	$ 2,358,931	$ 2,825,904	$ 943,160	$ 1,072,393	$ 3,968,824	$ 4,657,074

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution funded by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the endowment realized and unrealized appreciation with the endowment after the annual income distribution has been made. Endowment income capitalized to endowment principal, available to meet future spending needs subject to the approval of The Regents, amounted to $1.12 billion and $1.38 billion at June 30, 2002 and 2001, respectively.

The portion of investment returns earned on endowments held by The Regents and distributed each year to support current operations is based upon a rate (stated in dollars per share) that is approved by The Regents. The total distribution from endowments held by The Regents was $171.0 million and $165.8 million for the years ended June 30, 2002 and 2001, respectively. Amounts allocated in the year ended June 30, 2002 to fund next year's operating distribution exceeded income earned by $43.7 million.

Campus Foundations

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University of California.

The campus foundations may manage their investments, or the University may manage a portion of their investments. The fair value of the foundations' interest in University-managed investments totaling $741.3 million and $697.2 million at June 30, 2002 and 2001, respectively, is reported in both investments and in funds held for others in the University's statement of net assets.

During the years ended June 30, 2002 and 2001, gifts of $301.3 million and $251.3 million, respectively, were transferred to the University from campus foundations. At June 30, 2001, the date of the most recently available financial information, campus foundations' net assets exceeded $2.26 billion, but are not included in the University's financial statements under generally accepted accounting principles.

11. OTHER POST EMPLOYMENT BENEFITS

The University provides certain health plan benefits to retired employees. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive University contributions for those benefits. There are approximately 36,600 retirees currently eligible to receive such benefits at June 30, 2002 and 35,900 retirees at June 30, 2001. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors was $131.2 million and $123.7 million for the years ended June 30, 2002 and 2001, respectively.

12. OPERATING EXPENSES BY FUNCTION

Operating expenses, by functional classification, for the years ended June 30, 2002 and June 30, 2001 are as follows (in thousands of dollars):

	2002	2001
Instruction	$ 2,603,973	$ 2,554,550
Research	2,417,638	2,207,922
Public service	444,932	388,188
Academic support	986,342	944,414
Student services	392,450	333,578
Institutional support	648,112	623,132
Operations and maintenance of plant	384,959	410,548
Student financial aid	317,888	279,663
Medical centers	2,826,185	2,672,448
Auxiliary enterprises	572,955	537,774
Depreciation	754,042	715,497
Other	25,299	24,783
Total excluding Department of Energy laboratories	12,374,775	11,692,497
Department of Energy laboratories	3,563,157	3,070,379
Total operating expenses	$ 15,937,932	$ 14,762,876

13. SEGMENT INFORMATION

The University's significant identifiable activities for which revenue bonds are outstanding are related to certain of the University's medical centers. The medical centers' operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care.

Condensed financial statement information related to each of the University's medical centers, with the exception of the Irvine Medical Center that does not have any revenue bonds outstanding, for the years ended June 30, 2002 and 2001 is as follows (in thousands of dollars):

	University of California Medical Centers			
	Davis	**Los Angeles**	**San Diego**	**San Francisco**
Year Ended June 30, 2002				
Bonds outstanding	$ 349,070	$ 154,836	$ 90,337	$ 101,680
Bonds due serially through	2027	2023	2023	2032
Condensed Statements of Net Assets				
Assets				
Current assets	$ 329,733	$ 225,984	$ 166,007	$ 239,368
Capital assets, net	610,753	601,192	242,669	362,981
Other assets	10,001	16,406	5,401	16,713
Total assets	950,487	843,582	414,077	619,062
Liabilities				
Current liabilities	132,670	152,071	79,996	111,922
Long-term debt	343,501	152,832	90,688	166,698
Other noncurrent liabilities				43,863
Total liabilities	476,171	304,903	170,684	322,483
Net assets				
Invested in capital assets, net of debt	259,006	441,304	149,683	251,642
Restricted	15,523	23,158		6,683
Unrestricted	199,787	74,217	93,710	38,254
Total net assets	$ 474,316	$ 538,679	$ 243,393	$ 296,579
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 695,307	$ 825,365	$ 426,459	$ 875,891
Operating expenses	(604,949)	(775,749)	(375,568)	(799,782)
Depreciation expense	(43,799)	(41,647)	(17,912)	(44,778)
Operating income	46,559	7,969	32,979	31,331
Nonoperating expenses	(11,238)	(749)	(2,727)	(7,922)
Income before other changes in net assets	35,321	7,220	30,252	23,409
State and federal capital appropriations		98,135	2,431	
Health systems support	(9,282)	(25,479)	(21,999)	(11,669)
Transfers (to) from University, net	(15,604)	12,333		
Other, including donated assets		14,052	1,069	3,377
Increase in net assets	10,435	106,261	11,753	15,117
Net assets–June 30, 2001	463,881	432,418	231,640	281,462
Net assets–June 30, 2002	$ 474,316	$ 538,679	$ 243,393	$ 296,579
Condensed Statements of Cash Flows				
Net cash provided (used) by:				
Operating activities	$ 131,931	$ 58,302	$ 35,170	$ 79,550
Noncapital financing activities	(24,886)	(25,988)	(21,999)	(11,669)
Capital and related financing activities	(70,682)	(26,602)	(24,842)	(48,981)
Investing activities	10,213	2,186	2,509	3,338
Net increase (decrease) in cash	46,576	7,898	(9,162)	22,238
Cash–June 30, 2001	151,215	5,022	85,775	28,062
Cash–June 30, 2002	$ 197,791	$ 12,920	$ 76,613	$ 50,300

	University of California Medical Centers			
	Davis	Los Angeles	San Diego	San Francisco
Year Ended June 30, 2001				
Bonds outstanding	$ 354,253	$ 127,193	$ 93,350	$ 103,223
Bonds due serially through	2027	2023	2023	2032
Condensed Statements of Net Assets				
Assets				
Current assets	$ 294,013	$ 192,104	$ 163,079	$ 217,333
Capital assets, net	611,160	493,013	240,610	366,104
Other assets	9,924	18,058	5,213	18,884
Total assets	915,097	703,175	408,902	602,321
Liabilities				
Current liabilities	101,625	116,909	83,113	105,614
Long-term debt	349,591	153,848	94,149	169,193
Other noncurrent liabilities				46,052
Total liabilities	451,216	270,757	177,262	320,859
Net assets				
Invested in capital assets, net of debt	253,976	365,820	144,945	253,274
Restricted	15,468	24,013	57	8,130
Unrestricted	194,437	42,585	86,638	20,058
Total net assets	$ 463,881	$ 432,418	$ 231,640	$ 281,462
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 652,172	$ 771,078	$ 408,925	$ 768,591
Operating expenses	(563,757)	(720,652)	(353,367)	(730,896)
Depreciation expense	(43,356)	(42,293)	(16,517)	(45,802)
Operating income (loss)	45,059	8,133	39,041	(8,107)
Nonoperating expenses	(11,610)	(7,879)	(2,369)	(8,745)
Income (loss) before other changes in net assets	33,449	254	36,672	(16,852)
State and federal capital appropriations		42,774		5,000
Health systems support	(11,139)	(32,192)	(22,974)	(17,636)
Transfers to University, net		3,814	606	
Other, including donated assets		42,155	641	12,189
Increase (decrease) in net assets	22,310	56,805	14,945	(17,299)
Net assets–June 30, 2000	441,571	375,613	216,695	298,761
Net assets–June 30, 2001	$ 463,881	$ 432,418	$ 231,640	$ 281,462
Condensed Statements of Cash Flows				
Net cash provided (used) by:				
Operating activities	$ 99,914	$ 53,898	$ 53,428	$ 9,989
Noncapital financing activities	(11,139)	(32,845)	(22,974)	(17,636)
Capital and related financing activities	(70,005)	(26,608)	(29,022)	(21,691)
Investing activities	10,365	7,900	5,332	7,789
Net increase (decrease) in cash	29,135	2,345	6,764	(21,549)
Cash–June 30, 2000	122,080	2,677	79,011	49,611
Cash–June 30, 2001	$ 151,215	$ 5,022	$ 85,775	$ 28,062

Multiple purpose and housing system projects including student housing, faculty housing, parking facilities, student centers, recreation and events facilities, student health service facilities and certain academic and administrative facilities are also financed by revenue bonds; however, assets and liabilities are not required to be accounted for separately.

There are no significant accounting and reporting requirements associated with the specific activities financed by the research facilities revenue bonds or the certificates of participation.

Additional information on the individual University of California Medical Centers, the University of California Multiple Purpose Projects or the University of California Housing System can be obtained from their separate June 30, 2002 audited financial statements.

14. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most University employees participate in the UCRS. The UCRS consists of a single employer, defined benefit plan funded with University and employee contributions, a defined benefit plan for University employees who elected early retirement under the Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS-VERIP) and two defined contribution plans with several investment portfolios funded with employee non-elective and elective contributions.

University of California Retirement Plan

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

Members' contributions to UCRP are accounted for separately and accrue interest at 6 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect a lump sum equal to the present value of their accrued benefits. Both actions thereby forfeit the member's rights to further accrued benefits.

At June 30, 2002, plan membership totaled 173,343, comprised of 117,776 active members, 19,402 inactive members who are terminated vested employees entitled to benefits, but not yet receiving them, and 36,165 retirees and beneficiaries currently receiving benefits. The active members include 64,031 current employees who are fully vested. The active members also include 53,745 nonvested current employees covered by the plan. A total of 5,796 terminated nonvested employees are not members of the plan, but are eligible for a refund.

The Regents' funding policy provides for actuarially determined contributions at rates that provide for sufficient assets to be available when benefits are due. The contribution rate is determined using the entry age normal actuarial funding method. The significant actuarial assumptions used to compute the actuarially determined contribution are the same as those used to compute the actuarial accrued liability.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and appropriations received from the State of California.

Employee contributions may be required to be made to the University of California Retirement Plan. The rate of employee contributions is established annually pursuant to The Regents' funding policy, as a percentage of covered wages, recommended and certified by an enrolled, independent actuary and approved by The Regents, the plan's trustee. During the years ended June 30, 2002 and 2001, employee contributions to the University of California Retirement Plan were redirected to the University of California Defined Contribution Plan.

For the years ended June 30, 2002 and 2001, there were no employer contributions, annual pension costs or net pension obligations. The annual pension cost was equal to the actuarially determined contributions.

The annual required contribution for the current year was determined as part of the June 30, 2002 actuarial valuation, which is the latest available information, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation were:

- assumed return on investment of 7.5 percent per year;
- projected salary increases ranging from 4.5-6.5 percent per year;
- projected inflation at 4 percent;
- future life expectancy based upon recent group annuitant experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of investments over a five-year period. The actuarial value of assets in excess of the actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2002 was 13.1 years.

The supplemental schedule of funding progress is as follows (in thousands of dollars):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Excess	Funded Ratio	Annual Covered Payroll	Excess/ Covered Payroll
June 30, 2002	$ 41,649,000	$ 30,100,000	$ 11,549,000	138.4%	$ 7,227,000	159.8%
June 30, 2001	40,554,000	27,451,000	13,103,000	147.7	6,539,000	200.4
June 30, 2000	37,026,000	24,067,000	12,959,000	153.8	5,903,000	219.5

In November 2001, The Regents approved a Capital Accumulation Provision Accrual Credit, effective April 1, 2002. Each active member will receive a credit equal to 3 percent of eligible covered compensation earned between April 1, 2001 and March 31, 2002, plus annual interest at the assumed earnings rate of the UCRP. This plan amendment increased the actuarial accrued liability by approximately $195 million for the year ended June 30, 2002.

In January 2001, The Regents approved changes to the benefit provisions that became effective January 1, 2001. These changes increased the actuarial accrued liability by approximately $800 million for the year ended June 30, 2001.

There were no changes in actuarial assumptions or benefit provisions that significantly affected the actuarial accrued liability or contributions requirements for the year June 30, 2000.

University of California Defined Contribution Plans

The University maintains two defined contribution plans providing savings incentives and additional retirement security for all eligible University employees.

The Defined Contribution Plan (the DC Plan) accepts both after-tax and pretax contributions. In addition, the University has established a Tax Deferred 403(b) Plan (the 403(b) Plan). Effective July 1, 2001, The Regents adopted a provision for matching employer and employee contributions to the DC Plan for certain summer session teaching or research compensation for eligible academic employees. Employer contributions to the DC Plan were $3.4 million for the year ended June 30, 2002. There are no employer contributions to the 403(b) Plan. Participants in the DC Plan and the 403(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Treasurer of The Regents. They may also invest contributions in and transfer plan accumulations to certain external mutual funds on a custodial plan basis. The participants' interest in external mutual funds is shown separately on the statement of plans' fiduciary net assets.

The DC Plan pretax contributions are fully vested and are mandatory for all employees who are members of the University of California Retirement Plan. Monthly employee contributions range from approximately 2 percent to 4 percent of covered wages depending upon whether wages are below or above the Social Security wage base. The 403(b) Plan and the DC Plan after-tax options are generally available to all University employees.

University of California PERS–VERIP

The University of California PERS–VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC–PERS members who elected early retirement under provisions of the plan. The University contributed to the California Public Employee Retirement System on behalf of these UC–PERS members. Of 1,579 eligible employees, 879 elected to retire under this voluntary early retirement program.

The cost of contributions made to the plan is borne entirely by the University and the DOE laboratories. Over the five-year period ended June 30, 1996, the University and DOE laboratories were required to make contributions to the plan as determined by the plan's consulting actuary sufficient to maintain the promised benefits and the qualified status of the plan.

Additional information on the retirement plans can be obtained from the 2001–2002 annual reports of the University of California Retirement Plan, the PERS–VERIP, and the DC Plan and 403(b) Plan.

15. COMMITMENTS AND CONTINGENCIES

Amounts committed but unexpended for construction projects totaled $2.36 billion and $2.16 billion at June 30, 2002 and 2001, respectively.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2002 and 2001 were $108.9 million and $79.3 million, respectively. The terms of operating leases extend through the year ending 2042.

Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows (in thousands of dollars):

Year Ending June 30	Minimum Annual Lease Payments
2003	$ 70,307
2004	62,636
2005	52,672
2006	42,063
2007	45,806
2008–2012	67,464
2013–2017	3,342
2018–2022	3,375
2023–2027	3,754
2028–2032	4,283
2033–2037	4,877
2038–2042	2,718
Total	$ 363,297

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

The University is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.