ANNUAL FINANCIAL REPORT 2001–2002

University of California

It starts here

THE UNIVERSITY OF CALIFORNIA

The University of California, founded in 1868, is a system of 10 campuses with a mission of teaching, research and public service. With nearly 192,000 graduate and undergraduate students, UC is the world's premier public university. UC has three law schools, five medical schools and the nation's largest continuing education program. The University also manages three national laboratories that are engaged in energy and environmental research. Its Natural Reserve System manages approximately 130,000 acres of natural habitats for research, teaching and outreach activities.

CAMPUSES

1. BERKELEY
2. DAVIS
3. IRVINE
4. LOS ANGELES
5. MERCED
6. RIVERSIDE
7. SAN DIEGO
8. SAN FRANCISCO
9. SANTA BARBARA
10. SANTA CRUZ

NATIONAL LABORATORIES

A. E.O. LAWRENCE BERKELEY NATIONAL LABORATORY

B. LAWRENCE LIVERMORE NATIONAL LABORATORY

C. LOS ALAMOS (N.M.) NATIONAL LABORATORY

FACTS IN BRIEF

	2002	2001
STUDENTS		
Undergraduate fall enrollment	148,024	141,366
Graduate fall enrollment	43,879	41,989
Total fall enrollment	**191,903**	**183,355**
University Extension enrollment	389,361	444,102
FACULTY AND STAFF [1]	**114,282**	**108,827**

SUMMARY FINANCIAL INFORMATION (IN THOUSANDS OF DOLLARS, EXCEPT RETIREMENT PLAN PARTICIPATION)

UNIVERSITY OF CALIFORNIA

	2002	2001
PRIMARY REVENUE SOURCES		
Student tuition and fees[2]	$ 1,014,124	$ 993,198
Grants and contracts	3,209,669	2,886,501
Sales and services from medical centers, educational activities and auxiliary enterprises	4,606,702	4,227,299
State educational, financing and capital appropriations	3,449,851	3,258,067
Private gifts	358,315	527,026
Capital gifts and grants	249,166	465,704
Department of Energy laboratories	3,595,374	3,101,497
FUNCTIONAL EXPENSES		
Instruction	2,603,973	2,554,550
Research	2,417,638	2,207,922
Public service	444,932	388,188
Student financial aid[3]	317,888	279,663
Medical centers	2,826,185	2,672,448
Academic support	986,342	944,414
Other, including maintenance of plant, depreciation, institutional support, auxiliary enterprises and student services	2,777,817	2,645,313
Department of Energy laboratories	3,563,157	3,070,379
FINANCIAL POSITION		
Investments, at fair value	10,896,647	10,633,894
Capital assets, at book value	11,362,053	10,159,463
Outstanding debt, including capital leases	5,492,118	5,171,196
Net assets	15,251,124	14,636,534

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

	2002	2001
PLAN PARTICIPATION		
Plan membership	173,343	163,217
Retirees and beneficiaries currently receiving payments	36,165	34,684
PRIMARY REVENUE SOURCES		
Contributions	$ 675,368	$ 620,252
Investment income, net	1,341,867	1,684,915
Net depreciation in the fair value of investments	(5,382,805)	(4,609,315)
PRIMARY EXPENSES		
Benefit payments	949,355	886,064
Participant withdrawals	303,255	265,416
FINANCIAL POSITION		
Investments, at fair value	41,006,288	45,637,282
Members' defined pension plan benefits	34,514,561	38,954,530
Participants' defined contribution plan benefits	7,937,243	8,143,696
Actuarial value of assets	41,649,000	40,554,000
Actuarial accrued liability	30,100,000	27,451,000

[1] Represents full-time equivalents.

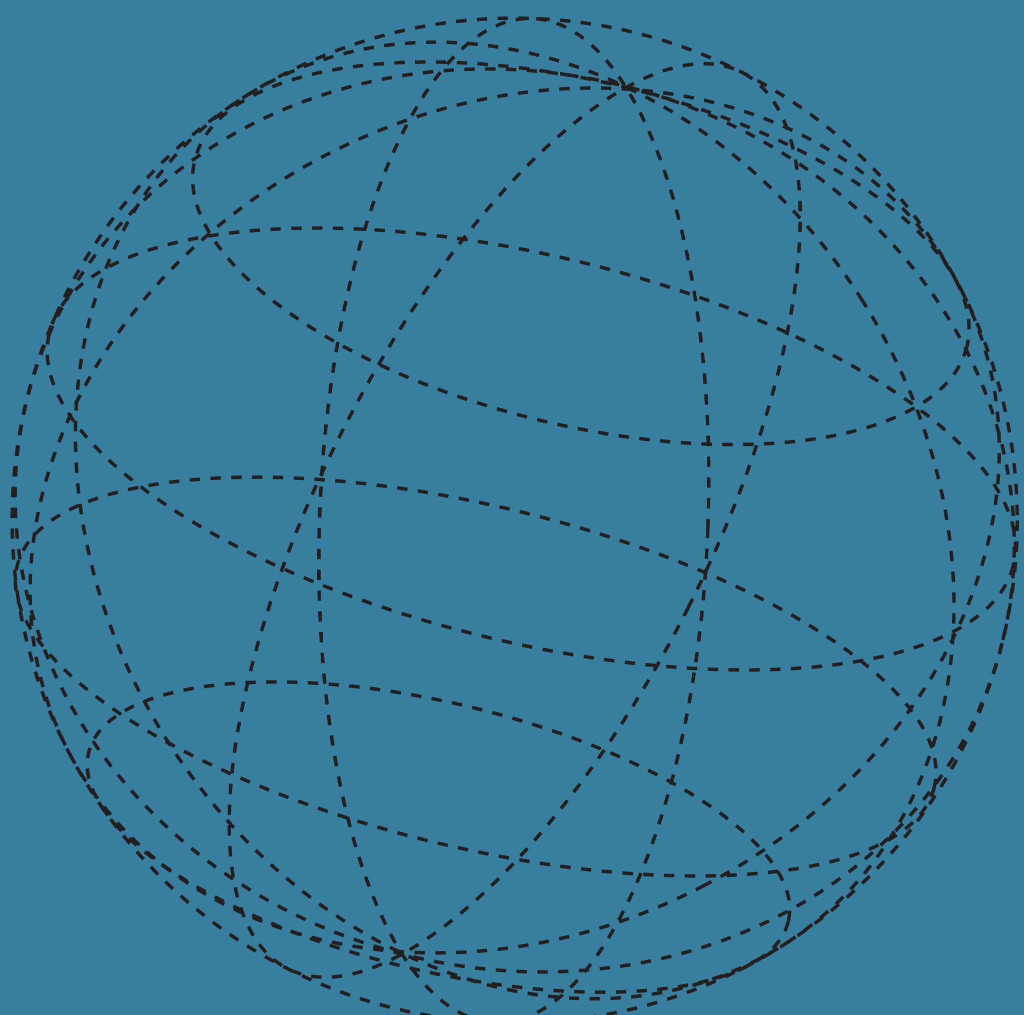
[2] Scholarship allowances, including both financial aid and fee waivers that are not paid directly to students, are recorded primarily as a reduction of student tuition and fees in the statement of revenues, expenses and changes in net assets.

[3] Includes only student aid paid directly to students. The state–administered California grant awards are not included as expenses since the government determines grantees. College work study expenses are shown in the programs in which the student worked.

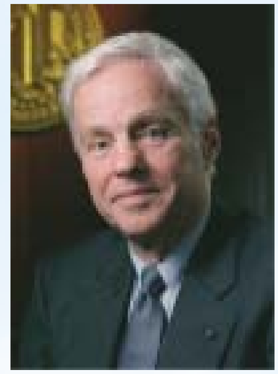
TABLE OF CONTENTS

“Start out and invent around the difficulties.”

— sign hung in the Berkeley research laboratory of Ernest O. Lawrence, before he won a Nobel Prize in 1939



MESSAGE FROM THE PRESIDENT



When you consider the scientific and technological advances made in the 20th century, it is clear our nation's research universities have been at the forefront in the creation of new knowledge. The University of California has played a prominent role in untold numbers of these innovations, some of which you will read about in this report.

The University of California has a long tradition of using its research to help Californians live and work better and more productively. Millions of people eat better food; work in smarter buildings and travel on safer highways, bridges and airport runways; rely on improved medical treatments and technologies; enjoy California wines; and explore the Internet – all of which are tied to innovations at UC.

"It starts here" is a fitting theme for this report since the University of California has such a profound impact on our daily lives through its core mission of teaching, research and public service.

For nearly 192,000 undergraduate and graduate students, the University of California is a place to start preparing for the future. The University offers its students a high-quality education at a fraction of the cost one might expect, and it prepares students to make significant professional, cultural and community contributions once they graduate. UC alumni have become world-renowned scientists, educators, and community leaders; governors and other elected officials; engineers and urban planners; artists, designers, and writers; doctors and public health workers; and business leaders and entrepreneurs.

Economic growth, as a result, also starts here. Through both its graduates and its research, the University of California has been an engine driving the economic growth of California – the world's sixth largest economy – as well as helping the nation to become the leader of global technological innovation. Federal Reserve Board chairman Alan Greenspan has noted that American research universities, such as UC, play a major role in "a global environment in which prospects for economic growth now depend importantly on a country's capacity to develop and apply new technologies."

To a significant degree, California's economic prowess is the result of the contributions of the University of California. Agriculture, high technology including biotechnology and computers, diversified manufacturing including multimedia and food processing, space and defense, and even tourism and entertainment – all are industries that have been influenced by the research, expertise, service, and presence of the University of California.

As a public institution, UC has always sought to carry out its core mission to improve the lives of Californians. With security and economic concerns looming large in California and the nation, we find ourselves in a period of uncertainty. But it's also an exciting time of challenge and opportunity, the kind of climate in which UC historically has risen to the occasion. The discoveries, breakthroughs and achievements you will read about in the following pages attest to the University's outstanding ability to, as Ernest O. Lawrence said, "invent around the difficulties." I am confident that these important and innovative contributions to society will continue throughout the 21st century.

Richard C. Atkinson

Richard C. Atkinson

“California’s economic vitality and its unequaled climate of opportunity are due in large part to the innovation, creativity, research and educated workforce that are the products of our state’s public education institutions.”

— UC President Richard C. Atkinson,
to the California Legislature, 1997

It starts here *You don't have to be a UC student or a graduate of one of the University of California campuses to reap the benefits from one of the state's most precious assets.*

Indeed, even if you never set foot on a UC campus or receive health care at a UC facility, the University affects your life – affects the lives of all Californians – in ways that are profound, yet so fundamental to our everyday existence that they are easily overlooked.

When you eat an orange or grapefruit in the morning, it can likely be genetically traced to a UC campus. When you enjoy wine from the famed Napa or Sonoma valleys, it is thanks to a UC program. The bar-code scanner used to quickly check these items out at the supermarket and the car brake lights that warn you when to slow down on the way home were made possible by UC research. If you are reading this report on the Internet, you are benefiting from a technology born at UC.

Whether it's providing information and tools for healthier living or fueling industries that bring billions of dollars into the state and create tens of thousands of jobs, the University of California has continually shaped and improved the lives of all of the state's residents – young and old, rich and poor, rural and urban, native and immigrant.

It all starts with a big idea. In some cases, it's simply a new way of looking at an old problem. In others, it's having the foresight to understand when a problem exists in the first place. These Big Ideas, along with the often-painstaking follow-up it takes to carry them through, have changed the course of history. Years later, it becomes difficult to imagine there was ever another way.

So ubiquitous is UC's impact in California that it would be impossible to provide a full accounting of the innovations and discoveries that have so dramatically touched us all. Instead, we offer in the pages that follow a small sampling of the Big Ideas that have emerged from the nine UC campuses and three UC-run national laboratories – a testament to UC's continuing contribution to the welfare of all Californians.

Karl Meyer, 1920

A NEW WORLD OF COMMUNICATION

In the fall of 1969, with the country still buzzing over the recent moon landing, a refrigerator-sized computer sent a message to a counterpart machine 20 feet away in UCLA's Boelter Hall.

Computer science professor Leonard Kleinrock had entertained grandiose thoughts of computers "talking" to each other for more than a decade. Kleinrock theorized that data from a connected bank of computers could be broken down and transferred in small packets that would travel along the least-congested network paths before being reassembled.

This idea of "packet switching," successfully tested barely six weeks after Neil Armstrong's far-more-celebrated "giant leap for mankind," launched the Internet. Communication, commerce and culture will never be the same as a result.

THE MODERN CANNED FOOD INDUSTRY IS BORN

An outbreak of botulism – the deadliest form of food poisoning – struck consumers of canned olives from California after World War I, causing a major public health crisis and threatening an embargo against the multimillion dollar canning industry. In 1920, UC bacteriologist Karl F. Meyer was chosen to head a UC San Francisco laboratory funded by the California and National Canners Association to study botulism and develop standard processing protocols.

Meyer observed that *Clostridium botulinum*, the bacterium that causes botulism, thrives in the airtight, nutritive environment of canned foods – but that the organism could be destroyed through heating. The discovery led to California's Cannery Act of 1925, including a heating process developed by Meyer that remains fundamental to the canned-food industry.

UC, a year in review: Selected events during academic year 2001-02

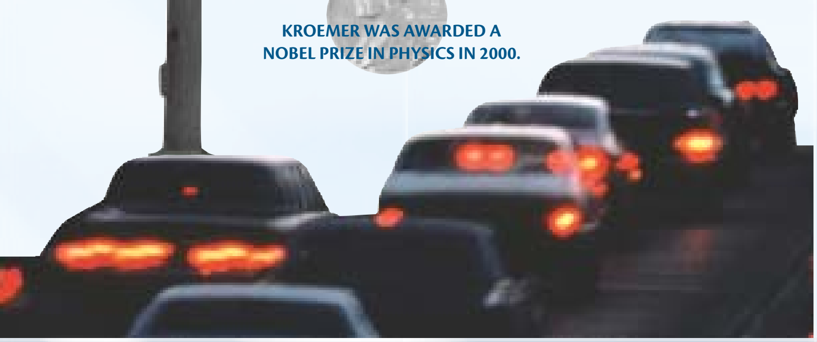
JULY 2001

UC regents approve "dual admissions," which provides a new way for top-performing California high school students to become eligible for UC and gain admission to a UC campus. Eligible students must first complete a transfer program at a California community college.

Regents establish a UC international office in Mexico City to serve the expanding academic, research and public service mission of the University south of the border.

AUGUST

UC Santa Barbara hires Jose Ignacio Cabezon to form a Tibetan Buddhism program, the only university program on the West Coast devoted to the study and preservation of the religion and culture of the Tibetan people. Cabezon is the first to hold the endowed XIV Dalai Lama Chair.



LIGHTING THE WAY

Elvis Presley had barely registered on the pop scene when Herbert Kroemer first advanced the idea that great performance advantages could be gained in certain semiconductor devices by incorporating what are now called heterojunctions. By 1963, the UC Santa Barbara professor was proposing the concept of layered semiconductor structures – heterostructures.

Nearly 40 years later, semiconductor heterostructure technology is used widely in cell phones, satellites and grocery store bar-code scanners. It can be seen in powerful light-emitting diodes built for car brake lights and traffic lights. The technology built on Kroemer's idea sends pulses of light through fiber-optic cables and provided the impetus for converting the King's crooning from vinyl to CD.

KROEMER WAS AWARDED A NOBEL PRIZE IN PHYSICS IN 2000.

Rowland with students photo by Paul Kennedy

FOCUS ON THE "GREENHOUSE EFFECT"

The director of the Scripps Institution of Oceanography observed in 1957 that burning of fossil fuels such as coal and petroleum had increased atmospheric carbon dioxide. Roger R.D. Revelle argued that this would affect climate, heating the planet via the "greenhouse effect," with potentially dire results.

As Revelle's work was bringing the greenhouse effect into the public consciousness, two other UC scientists added to the debate. In 1974, Ralph Cicerone warned that chlorine in the exhaust of the proposed space shuttle could decompose ozone. Later that year, fellow UC Irvine atmospheric chemist F. Sherwood Rowland suggested that chlorofluorocarbons (CFCs) from products such as aerosol sprays and coolants were eating away at the Earth's protective ozone layer. By 1987, an international treaty was established calling for a worldwide ban on CFCs. Last year, Cicerone, who is now chancellor at UC Irvine, was lead author and Rowland co-author of a report, requested by the White House, on global climate change.

ROWLAND WAS AWARDED A NOBEL PRIZE IN CHEMISTRY IN 1995.

Severin Borenstein, director of UC Berkeley's energy institute, is tapped by the William and Flora Hewlett Foundation to help lead a $10 million study on California's energy crisis and future energy needs.

SEPTEMBER

Stephen Spindler, a UC Riverside biochemist, reports that laboratory mice that reduce calorie consumption, even for a short time, avoid the majority of age-related diseases.

Following the Sept. 11 attacks, UC campuses provide a wide range of services to the nation and their communities, ranging from collecting donations, blood drives and campus memorials to faculty expertise. UC researchers offer insights with Congress as investigations begin.

Gov. Davis appoints Monica C. Lozano and Norman J. Pattiz to the UC Board of Regents. Lozano is president/COO of La Opinion newspaper. Pattiz is founder and chairman of the Westwood One radio network.

CHANGING THE FACE OF MEDICINE

With Americans mired in the Depression, UC Berkeley physicist Ernest O. Lawrence capitalized on a method for accelerating elementary particles to build a device – known as the cyclotron, or "atom smasher" – in which the particles' energy levels are limited only by the length of the machine.

The cyclotron, which earned Lawrence a place in history as the father of "big science," resulted in quantum advances in physicists' understanding of the fundamental structure of matter. More recently, it has had a major impact in medicine. For the first time, it enabled radioactive isotopes to be made in large quantities. Positron emission tomography (PET) scanning was established based on cyclotron production of isotopes. In major hospitals, cyclotrons are used every day for diagnosis and research into the fundamental mechanisms of disease.

LAWRENCE WAS AWARDED A NOBEL PRIZE IN PHYSICS IN 1939.

Early cyclotron, built in 1930 by E.O. Lawrence and M. Stanley Livingston

Boyer, 1970

NEW DRUG THERAPIES, A NEW INDUSTRY

The idea that genetic material from bacteria could be mixed with foreign genes and introduced into other bacteria to form hybrid chromosomes was first demonstrated by UC San Francisco's Herbert W. Boyer and his Stanford University colleague Stanley N. Cohen in 1973. It enabled scientists – Boyer and Cohen included – to mine a treasure trove of discoveries that made possible the inexpensive, large-scale production of numerous human proteins, vaccines and other medical products.

Today, hundreds of biotechnology firms rely on the Boyer/Cohen approach or something similar to it, fueling a multibillion dollar industry that employs more than 58,000 people in the San Francisco Bay Area alone. Recombinant DNA has touched millions of lives through drug therapies such as human growth hormone, insulin for diabetes and interferon and interleukin II for cancer.

OCTOBER

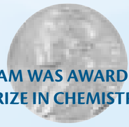
UC San Diego scientists fabricate cartilage tissue that, for the first time, mimics the multi-layering structure and cellular functions of natural articular cartilage.

Lawrence Berkeley National Laboratory's newest supercomputer opens to more than 2,000 researchers at national laboratories and universities across the country. The IBM SP is named "Seaborg" in honor of laboratory Nobel laureate Glenn T. Seaborg.

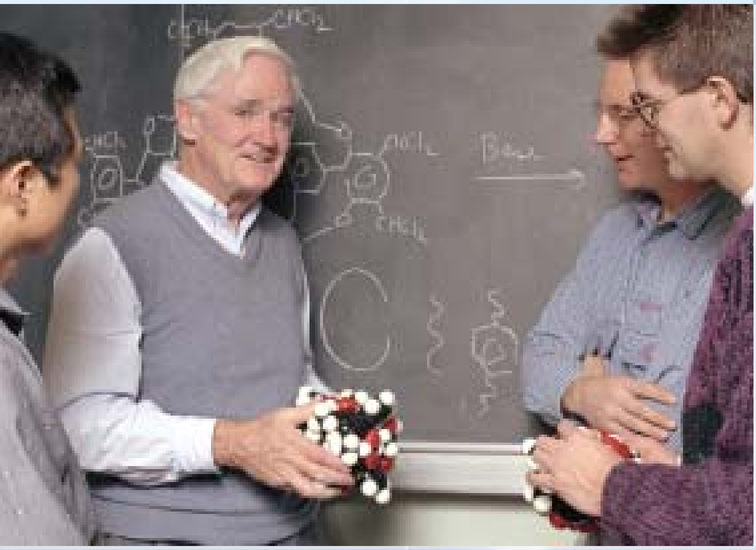
BIOLOGICAL BREAKTHROUGH

Complex, biologically important molecules such as proteins are able to pull off their amazing life-sustaining processes by fitting together in lock-and-key fashion. They do this by "recognizing" sites on each other's molecular skeletons that permit them to intimately bond, often in exquisite symmetries that seem to blend science and art.

With these observations, UCLA chemist Donald J. Cram opened up a field of research with limitless potential for applications in organic synthesis, manufacturing, pharmacology and medicine. Virtually every biological activity depends on this molecular recognition process, also called host-guest chemistry. Cram realized that if nature could do this, so could scientists. For the past 25 years, the field known as structural biology – heavily based on Cram's discoveries – has guided almost all progress in the design and synthesis of new and better drugs.



CRAM WAS AWARDED A NOBEL PRIZE IN CHEMISTRY IN 1987.



Cram in classroom

A NEW APPROACH TO DISEASE

Modern biomedical science is developing new approaches to diagnosing, treating and preventing human disease by using quantitative and analytical thinking – the hallmarks of engineering. Bioengineering can be traced to UC San Diego, which launched the first formal bioengineering degree program in 1966 under the direction of Y.C. Fung.

Fung established much of the foundation for biomechanics, in which engineering principles are employed to solve biomedical problems. In the 1980s, he initiated a new direction for the field, which he coined "tissue engineering." Engineered skin tissue can mean the difference between life and death for today's burn victims. Bioengineering's imprint can also be found in imaging tools such as MRI and ultrasound, and in implantable pacemakers that enable people with heart disease to lead productive lives.

- George A. Akerlof, a UC Berkeley economics professor, is named a co-winner of the 2001 Nobel Prize in economics. It's the 44th Nobel Prize awarded to a UC researcher, the most of any public university.

- Cosmologists at UC Davis and colleagues report the universe is 14 billion years old, give or take half a billion years.

NOVEMBER

- Responding to the growing need for more highly trained teachers in California classrooms, the University of California and the California State University announce they have agreed to a plan to establish new joint doctorates in education programs.

- Regents approve "comprehensive review" in UC admissions, allowing all students to be considered on the basis of a single, comprehensive set of selection criteria and abandoning the "tiered" system of admissions.

GROUNDBREAKING DIAGNOSTIC TOOL

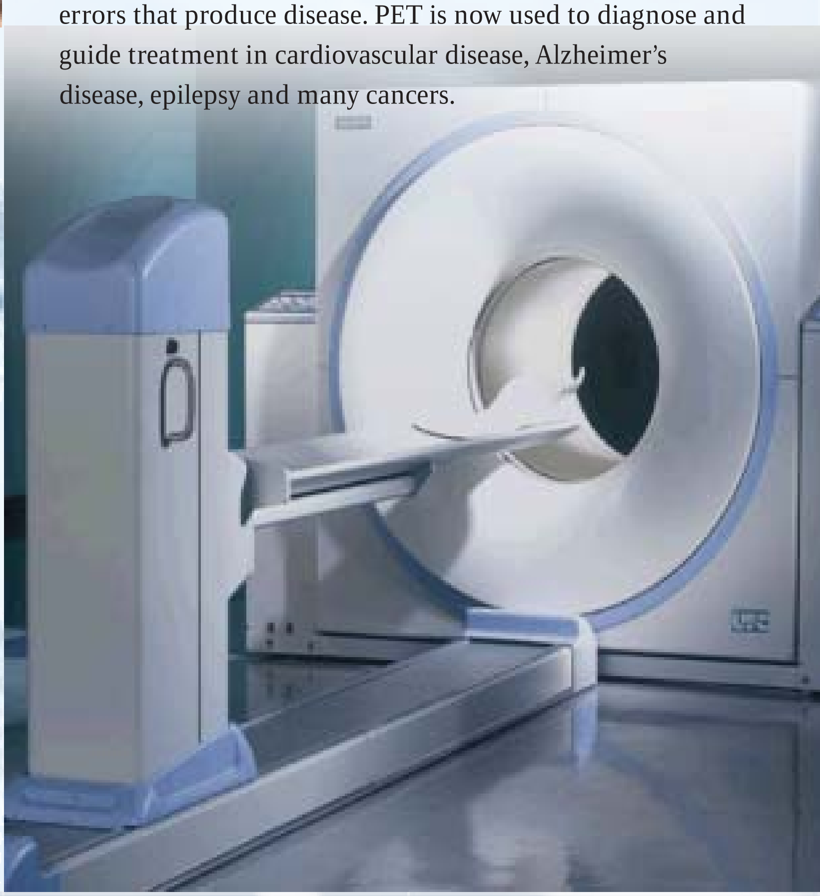
In 1973, Michael Phelps and a postdoctoral student created the first positron emission tomography (PET) scanner, providing an unprecedented window into the body's biochemistry in health and disease. PET uses molecules that are labeled with trace amounts of radioactive elements and are then injected into the bloodstream. These molecules send signals back to the PET scanner, which can take real-time pictures of the biological processes of all the organ systems in a single examination.

Phelps' invention, which he has developed and refined since joining the UCLA faculty in 1976, heralded a new specialty that aims to identify and correct the molecular errors that produce disease. PET is now used to diagnose and guide treatment in cardiovascular disease, Alzheimer's disease, epilepsy and many cancers.

GOODBYE CHEESEBURGER, HELLO STAIRMASTER

Lester Breslow wasn't the only one with the notion that eating right, exercising regularly and refraining from tobacco or excessive alcohol consumption could lead to a longer, healthier life. But no one had attempted to quantify such benefits until, in 1965, Breslow decided to include questions about daily habits in a health survey of Alameda County residents.

Even the UCLA public health dean was taken aback by the results. Among other things, a 45-year-old man who practiced at least six of the seven healthy behaviors included in the survey could expect to live 11 years longer than one who adhered to three or fewer. The explosion of health clubs, low-fat foods and non-smoking facilities in the years since is based on the now-common knowledge that we *can* control our health and longevity.



Research at UC Berkeley demonstrates that adding triangular flaps to the design of aircraft wings dramatically cuts the strength of turbulence generated in an airliner's wake.

UCLA Vice Chancellor Winston C. Doby is named the University's VP for educational outreach. Doby heads an extensive educational outreach effort designed to prepare larger numbers of students for admission to UC. The systemwide outreach office also coordinates UC's efforts to work with K-12 educators.

DECEMBER

UC Irvine hires an internationally renowned breast-cancer researcher, Eva Lee, to expand the school's already sizable programs in the study and treatment of cancer.

After seven years as director, C. Bruce Tarter announces he will step down at Lawrence Livermore National Laboratory. During Tarter's tenure, the laboratory had many accomplishments including its leadership role in supercomputing and the nation's Stockpile Stewardship Program, contributions to the Human Genome Project and its partnership with the semiconductor industry.

VITAMIN E CRITICAL FOR BODY'S CELLS

In 1922, UC Berkeley scientists Herbert M. Evans and Katharine S. Bishop discovered that adequate amounts of the substance known as "food factor" were essential for pregnant rats. As they continued with the first studies isolating and characterizing vitamin E (so named in 1924), Evans and Bishop found that it had much broader powers.

Vitamin E – found in vegetable oils, nuts, and green leafy vegetables – is an antioxidant that protects against damaging byproducts of the body's metabolism, known as free radicals. Cell damage from free radicals can contribute to the development of cardiovascular disease and cancer. Eighty years after Evans and Bishop first isolated and characterized vitamin E, closely watched studies are attempting to determine whether antioxidants can prevent or delay the development of our nation's two leading killers.

Evans, 1922

President Bush announces he will nominate UC Riverside Chancellor Raymond L. Orbach to serve as director for the U.S. Energy Department's Office of Science.

JANUARY 2002

UC announces its intent to join the Fair Labor Association and continue its membership in the Worker Rights Consortium, two organizations maintaining oversight of working conditions for the manufacture of various products licensed by the University.

The Commission on the Growth and Support of Graduate Education concludes that to serve the state's needs by 2010, UC must boost systemwide graduate student enrollment by at least 11,000, a nearly 25 percent increase, and increase support for individual graduate students.

A report to the Board of Regents discloses that UC is now more deeply involved with K-14 education than at any time in the University's history, and the depth of engagement is unprecedented in American higher education.

THE AGING OF A $17 BILLION INDUSTRY

Sensing an untapped economic resource, the California Legislature in 1880 asked UC to help improve the state's fledgling wine industry. Eugene Hilgard, appointed to lead the effort, judged much of California's wine as "atrocious."

Hilgard brought European grapes to growers in the Napa and Sonoma valleys and launched a program at UC Davis that would distill the many sciences involved in wine-making into a research and training enterprise where the world's greatest wine regions now send their progeny.

Today, 95 percent of the grapes grown in the United States come from plants originated at UC Davis. And far from being "atrocious," California wine, much of it produced at wineries led by UC Davis alumni, is enjoyed by millions – to the tune of $17 billion for the state.

FEBRUARY

UC Berkeley researchers find a way to mate different materials along the length of a single nanowire, raising the possibility of electronic devices on a single nanowire less than one-hundredth the width of a human hair.

Work is completed at UC Santa Cruz on the most advanced optical spectrograph in the world, a critically important tool for astronomers investigating fundamental questions about the origin of the universe.

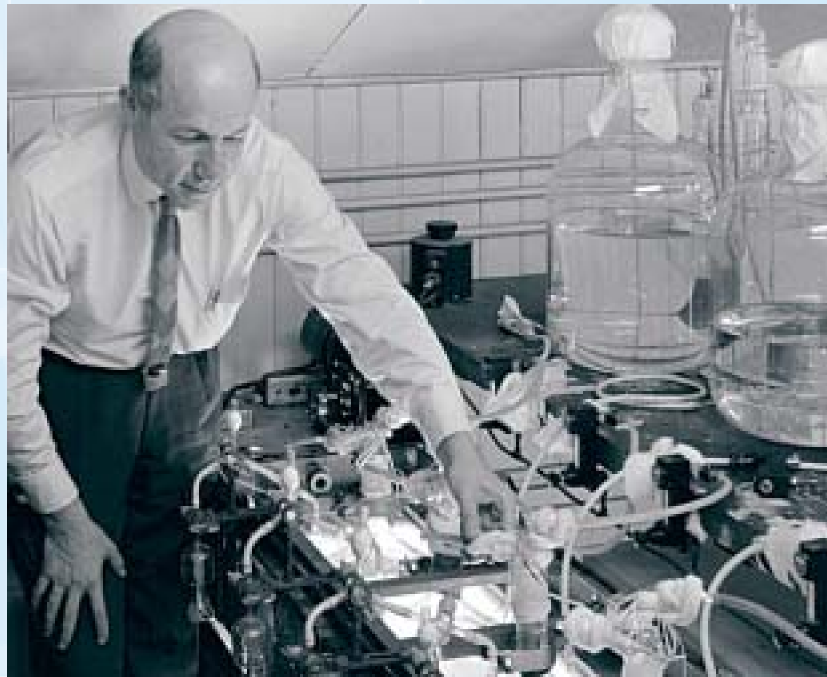
Gov. Davis appoints Haim Saban, a children's television executive, to the UC Board of Regents.

UCLA Medical Center researchers report a pilot study shows magnesium sulfate administered early in the field by paramedics may protect the threatened brain and lead to a better recovery for stroke victims.

PULP NONFICTION: THE CALIFORNIA CITRUS INDUSTRY

California citrus was in danger of succumbing to the deadly tristeza virus in the 1940s, before UC Riverside research scientists identified the culprit and developed a new disease-resistant rootstock. As the first academic institution to seriously address many of the plant-disease problems facing citrus in the state, UCR's Citrus Research Center-Agricultural Experiment Station has, throughout its 95-year history, led the way in addressing pest and disease challenges and developing new citrus varieties to solve disease problems.

Nearly every orange, lemon, tangerine and grapefruit currently in a supermarket produce bin can be genetically linked either to trees in UCR's Citrus Variety Collection, which includes more than 800 varieties; or the Citrus Clonal Protection Program, where new varieties are established. Citrus now brings in nearly $1 billion a year to the Golden State.



Calvin, 1957

"CALVIN CYCLE" SUGGESTS POTENTIAL IN SOLAR ENERGY, ENABLES CARBON DATING

Just after World War II, a UC Berkeley scientist used radioactive carbon to demonstrate the process by which plants capture energy from the sun. With carbon-14 as his tracer, Melvin Calvin mapped the cycle of chemical reactions involved in the conversion of carbon dioxide and water into sugar during photosynthesis. He found that sunlight acts on the chlorophyll in a plant – rather than on carbon dioxide, as previously believed – to stimulate the production of organic compounds.

By showing the feasibility of converting the sun's energy into useful forms, Calvin spurred the U.S. government's interest in solar energy. Carbon-14 has become one of the most commonly used tracers in biological studies, and is employed to determine the age of certain archaeological artifacts as old as 50,000 years.

CALVIN WAS AWARDED A NOBEL PRIZE IN CHEMISTRY IN 1961.

The U.S. District Court names the University of California lead plaintiff in a shareholders' class action lawsuit against senior executives of the Enron Corp. and accounting firm of Arthur Andersen. UC, with $145 million in Enron stock when the company went bankrupt, is engaged in the suit to protect employees and retirees.

MARCH

Gov. Davis appoints Richard C. Blum, a UC Berkeley alum, to the UC Board of Regents. He is the chairman of Blum Capital Partners, LP and co-chairman of Newbridge Capital, LLC.

APRIL

Researchers at UC Santa Barbara report the greenhouse gases that humans are producing are likely to affect not only the warming of the atmosphere but also the circulation of the oceans, which in turn can affect weather and climate worldwide.

UC San Diego researchers unveil high-speed wireless Internet service on a bus that shuttles students between the UCSD campus and a nearby commuter train station. Students and University staff aboard the bus, dubbed the CyberShuttle, can use the half-hour travel time to check their e-mail, look up Web pages or download files.

Bradner in original wetsuit, 1952

WETSUIT TAKES SEA EXPLORATION TO NEW DEPTHS

UC Berkeley physicist Hugh Bradner held unconventional ideas about how to build a body suit for the underwater military swimmer. In designing the first wetsuit in 1952, Bradner was guided by his belief that the suit need not be watertight if thermal insulation could be obtained. The diver didn't have to be dry to stay warm; his wetsuit would be thermally insulated by the many small air bubbles trapped in the material.

Bradner, who later collaborated with engineers at Berkeley to design a commercial version of the suit, opened the door to a business with more than $100 million in annual U.S. sales, bringing surfing to chilly northern coastlines and transforming commercial, military and recreational deep-sea diving.

JUICE BAGS AND FRUIT COCKTAIL

Recognizing the need to help farmers by developing new uses and improving the economic outlets for dried and dehydrated fruits, William V. Cruess became a pioneer in the use of fruits to produce fruit-juice beverages, fruit-based concentrates and syrups. He was one of the first investigators in the United States to use freezing storage for preservation of fruits and fruit products. During his years at UC Berkeley, Cruess co-founded the field of food science, established the technology of fruit dehydration, and came up with the mix that brought the "fruit cocktail" into homes and restaurants everywhere.

France A. Córdova, a nationally recognized astrophysicist and vice chancellor-research at UC Santa Barbara, is named chancellor of UC Riverside.

UC dedicates its new Washington Center in the heart of the nation's capital; the 11-story, 176,264 square foot center is home to more than 250 students, faculty and staff.

A UC Irvine research team reports creation of the first animal model that exhibits the pathological and behavioral symptoms of inclusion body myositis, the most common degenerative muscle disease among the elderly; the research also holds promise for further advances on Alzheimer's.

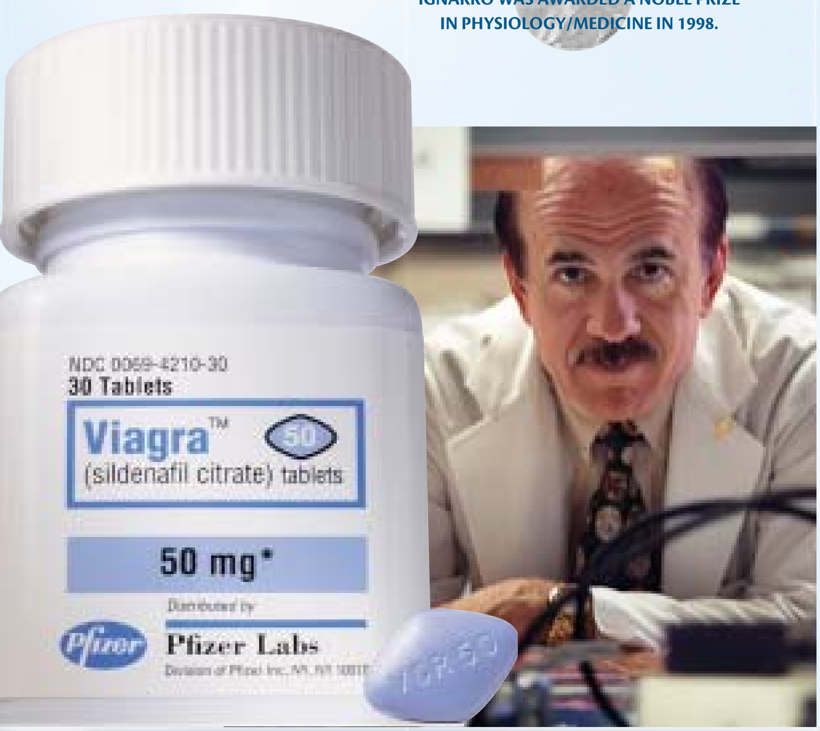
UC Santa Cruz receives $500,000, the largest-ever donation from an alumnus, which will help establish an institute uniting environmental research from different disciplines. Gordon Ringold, who earned an undergraduate degree from the campus, and his wife, Tanya Zarucki, made the gift.

TODAY, VIAGRA, TOMORROW . . .

Major professional journals once refused to publish UCLA pharmacologist Louis Ignarro's contention that a substance basic to nitroglycerin and part of the chemistry of smog is also crucial to the process of life. Eventually, they came around and colleagues confirmed Ignarro's discovery of nitric oxide's pivotal role in regulating the cardiovascular system, as well as a range of bodily functions involving major organs.

Millions of men and their spouses are reaping the benefits of Ignarro's discovery, for it led to the development of Viagra for the treatment of impotence – a problem that affects nearly one in 10 males. Moreover, it triggered a tidal wave of research activity focused on nitric oxide, with the hope of finding ways to prevent or reduce complications from hypertension, stroke and diabetes.

IGNARRO WAS AWARDED A NOBEL PRIZE IN PHYSIOLOGY/MEDICINE IN 1998.



Ignarro in lab

IN THE FIGHT AGAINST TERRORISM

Long before the events of Sept. 11, 2001, researchers at University of California campuses and the three national laboratories UC manages were engaged in scientific and policy research related to terrorist threats. The 9/11 attacks, however, have focused even more urgency on ways in which basic research can prevent and combat threats.

Among these developments, the Lawrence Livermore and Los Alamos national laboratories collaborated on the Biological Aerosol Sentry and Information System – BASIS – which rapidly detects the criminal use of biological agents. BASIS became part of the security network at the 2002 Winter Olympics in Salt Lake City. Laboratory researchers began developing BASIS to detect airborne bioagents for special events such as major sporting events, political conventions and dignitary visits. BASIS reduces the time for detecting a bioagent release from days or weeks to a matter of hours, giving public health officials much more rapid warning.

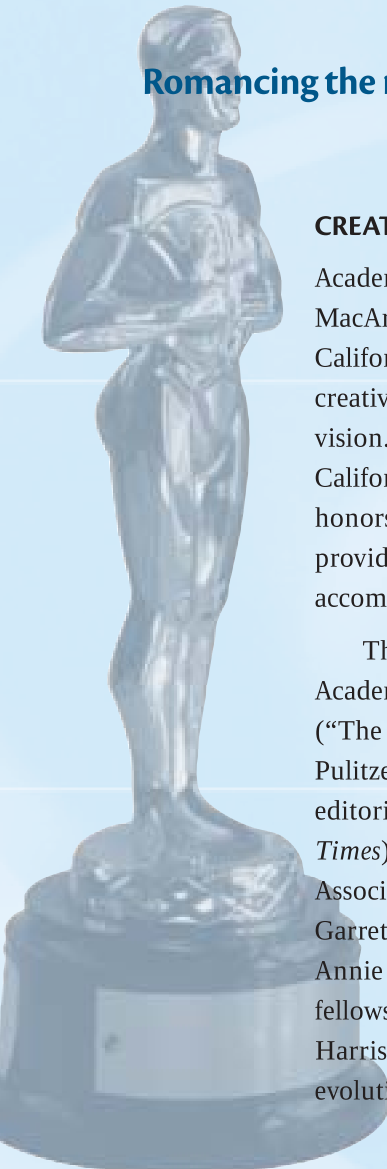
Additionally, Lawrence Livermore and Lawrence Berkeley laboratory researchers have developed a handheld spectrometer that can detect radioactive materials wherever they might be located – at a border crossing, in an airport or on a person. And an eight-year effort by UC San Francisco researchers and colleagues has produced the first drug that can be mass produced to prevent or treat botulism, the paralyzing disease caused by a nerve toxin considered one of the greatest bioterrorism threats.

MAY

Entertainment executive and philanthropist David Geffen donates $200 million to endow the UCLA School of Medicine. It's the largest single donation of its kind ever made to a school of medicine in the U.S. and the largest donation ever received by the University of California system.

Five UC faculty are named recipients of the National Medal of Science, the nation's highest award for lifetime achievement in fields of scientific research: Francisco J. Ayala of UC Irvine, Marvin L. Cohen and Gabor A. Somorjai of UC Berkeley and Lawrence Berkeley National Laboratory, Charles D. Keeling of UC San Diego's Scripps Institution of Oceanography, and Harold E. Varmus of UC San Francisco.

Researchers at the Lawrence Berkeley National Laboratory report discovery of the mechanism by which a rare protein mutation shields people from cardiovascular disease, opening the possibility of more potent drug therapies that target cholesterol deposition and prevent future accumulation.



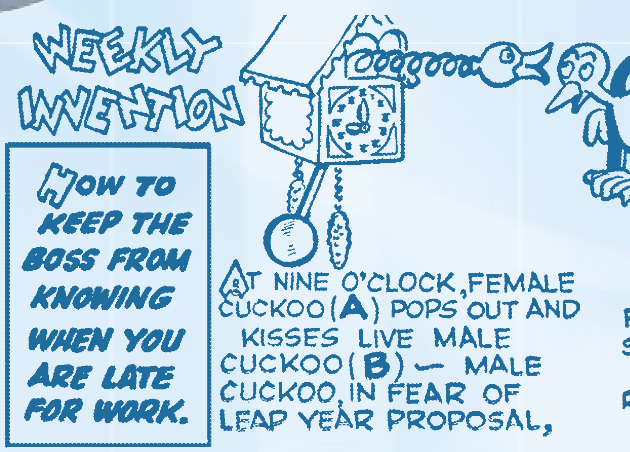
CREATIVE PURSUITS

Academy Awards. Pulitzer Prizes. MacArthur Foundation “genius” grants. California Book Awards. All represent creativity, originality, elucidation and vision. Over the years, University of California alumni have won these coveted honors, having received an education that provides a foundation or an inspiration to accomplish great things.

They include Francis Ford Coppola, an Academy Award winning filmmaker (“The Godfather,” “Apocalypse Now”); Pulitzer winners Mike Ramirez (for editorial cartoons in the Los Angeles *Times*), Martha Mendoza (for an Associated Press investigation), Laurie Garrett (for a *Newsday* investigation) and Annie Wells (for photography); MacArthur fellows Alison Anders (a filmmaker), Eva Harris (a biologist) and Margie Profet (an evolutionary biologist and mathematician).

Martha Mendoza, UC Santa Cruz alum and Pulitzer Prize winner

Other noteworthy alumni in creative pursuits include author Michael Chabon, a graduate of UC Irvine’s graduate program in creative writing – regarded as one the best writing programs in the nation – who has won a Pulitzer Prize, a California Book Award and several other honors; Pauline Kael, the late, longtime *New Yorker* film critic; Mike Judge, animator and creator of “Beavis and Butthead” and “King of the Hill”; Julia Morgan, the pioneering architect whose work includes San Simeon; actor and producer Tim Robbins; cartoonist Rube Goldberg; screenwriter and film director Gregory Nava (“Selena,” “Mi Familia/My Family”) and Alice Waters, the restaurateur and creator of California cuisine.



Cartoon by Rube Goldberg

- Regents give green light to the construction of the first three buildings at UC Merced: a classroom and office building; the library and information technology center; and the science and engineering building. The campus is scheduled to open in 2004.

JUNE

- Michael R. Anastasio, deputy director for strategic operations of the Lawrence Livermore National Laboratory and a nationally recognized research scientist, is appointed director of the UC-managed national laboratory.
- UC campuses report admitting 13,600 transfer students from the California Community Colleges for fall 2002, 4 percent more than in 2001; the figure marks the fourth consecutive year of growth in the number of transfer students.
- UC astronomers and colleagues discover new solar system. It marks the first time that researchers have found a family of planets that has similarity to our solar system.

“If we are to remain pre-eminent in transforming knowledge into economic value, the U.S. system of higher education must remain the world’s leader in generating scientific and technological breakthroughs and in preparing workers to meet the evolving demands for skilled labor.”

— Alan Greenspan,
Federal Reserve Board chairman,
July 2000

MESSAGE FROM THE SENIOR VICE PRESIDENT — BUSINESS AND FINANCE

The University of California experienced another year of significant growth in the 2001-02 fiscal year. Total student enrollment exceeded estimates, increasing by 4.7 percent over the prior year, a product of the quality of the University's programs and state demographics. Revenues from grants and contracts grew by 11 percent to $3.2 billion, reflecting the continued competitiveness and excellence of the University's research enterprise. Continued growth in medical center revenues and contracts for the management of Department of Energy laboratories also contributed to an 11 percent growth in total operating revenue.

Unfortunately, despite the efforts of the governor and the Legislature, the University's operating appropriations from the state, while increasing, felt the unavoidable effects of a constrained state budget and fell below the level contemplated in the Partnership Agreement with the state. State capital appropriations were increased to support the essential physical infrastructure for expanding University programs. The University also felt the effects of an uncertain economy as investments in endowments and the retirement system declined with capital markets. Overall, the University experienced a modest increase in net assets.

The most important output of the University, the accomplishments of students, faculty and staff, is not captured in these financial statements. Just two of the many thousands of research accomplishments demonstrate the breadth and impact of UC research:

- UC San Diego scientists fabricated biological cartilage tissue that, for the first time, mimics the natural variety; the new tissue may some day be used as an implant treatment for the millions who suffer from joint injuries, congenital defects, arthritis or age-related degeneration.
- UC Berkeley researchers found a way to mate different materials along the length of a single nanowire. Their work could significantly shrink computer chips, promising electronic devices on a single nanowire less than one-hundredth the width of a human hair.

Given the plans for substantial student expansion, growth in research and the need to provide state-of-the-art health care, investment in facilities is necessary. Four examples from the many projects underway in 2001-02 offer a glimpse of the University's capital program:

- In April, UC dedicated its new Washington Center as the home of the University's academic programs in the nation's capital. The 11-story facility will serve nearly 300 students, as well as the UC Office of Federal Governmental Relations.
- Also in April, UCLA celebrated the "topping off" of the northeast tower of the Westwood Replacement Hospital, the largest construction project ever undertaken in UC's history. Scheduled for completion in 2005, it will be one of the first hospitals in California to meet stringent new 2030 state seismic safety standards.
- Construction got underway at UC San Diego on the headquarters of the California Institute for Telecommunications and Information Technology, a collaboration between UC San Diego and UC Irvine, that seeks to extend the Internet throughout the physical world. The institute is one of four California Institutes for Science and Technology on UC campuses. All four will focus on the research and innovation that will enhance California's economy through the creation of new technologies and of new jobs.
- UC Davis broke ground for its $77 million laboratory facility for its School of Veterinary Medicine. The new facility will range from one to six stories and will include 98,000 square feet of classrooms, laboratories, clinical services and offices.

The University is continuing to develop plans to assure that facilities are available to support the projected growth through this decade. An example of the effort is the Housing Task Force, which produced the most aggressive plan ever to be initiated by the University to provide affordable housing for the UC community. The task force identified plans to almost double the number of student housing "beds" from the present 47,100 to 86,700 by the year 2011-12 – an increase of about 83 percent. In addition, the task force won regental approval to expand the mortgage assistance programs for faculty and staff and to identify new projects for faculty and staff housing.

The new mortgage assistance programs have been launched, and an additional 3,476 student "beds" have been added to housing inventory during this year. The University is a service organization that is dependent on its faculty and staff for the quality of its products. The constrained state budget provided for only 2 percent increases in compensation. The University is committed to securing additional funds to provide competitive compensation to all employees, but in an effort to mitigate the impact of this modest increase, the regents provided a Capital Accumulation Provision, a one-time supplement to the regular retirement benefits, of 3 percent of eligible covered compensation.

Alumni and friends continued to demonstrate their strong support for the University through their gifts to the University and its foundations. In an extraordinary demonstration of this support, entertainment executive and philanthropist David Geffen donated $200 million through the UCLA Foundation to endow the UCLA School of Medicine. The gift represents the largest single donation of its kind ever made to a school of medicine in the United States and the largest donation ever received by the University of California. The gift will substantially enhance the research and teaching programs of the school, to be renamed the David Geffen School of Medicine at UCLA.

The past fiscal year was undoubtedly one of fiscal uncertainty. The University, however, continued to grow, while enhancing its academic excellence to serve the needs of an expanding state. Simultaneously, the University is planning for and building the infrastructure that is necessary to support the needs of the decades ahead.

Joseph P. Mullinex

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

The objective of management's discussion and analysis is to help readers of the University of California's financial statements better understand the financial position and operating activities for the fiscal year ended June 30, 2002, with selected comparative information for the year ended June 30, 2001. This discussion should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2001, 2002, 2003) in this discussion refer to the fiscal year ended June 30.

The University of California's financial report communicates financial information for both the University of California (the University) and the University of California Retirement System (the UCRS) through five primary financial statements and notes to the financial statements. Three of the primary statements, the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows, present the financial position, operating activities and cash flows for the University. Two of the primary statements, the statement of plans' fiduciary net assets and statement of changes in plans' fiduciary net assets, present the financial position and operating activities for the UCRS.

THE UNIVERSITY OF CALIFORNIA

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research and public service. The University has an annual budget of nearly $17 billion and encompasses 10 campuses, five medical schools and medical centers, three law schools and a statewide Division of Agriculture and Natural Resources. Also, the University manages three national laboratories for the U.S. Department of Energy.

Campuses. The ten campuses are located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. All of the campuses, with the exception of Merced, offer undergraduate, graduate and professional education; one, San Francisco, is devoted exclusively to the health sciences. The Merced campus will open in the fall of 2004.

Health sciences. The University operates the nation's largest health science and medical training program. The instructional program is conducted in 14 health sciences schools on six campuses. They include five medical schools, two dentistry schools, two nursing schools, two public health schools, a school of optometry, a school of pharmacy and a school of veterinary science. The University's medical schools play a leading role in the development of health services and advancement of medical science and research.

Law schools. The University has law schools at Berkeley, Davis and Los Angeles. Also, the Hastings College of Law in San Francisco is affiliated with the University.

Agriculture and Natural Resources. The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves the largest and most diverse agricultural community in the world. The division conducts studies on the Berkeley, Davis and Riverside campuses, on nine research and extension centers and on private land in cooperation with California producers. In addition, the division delivers research and educational programs in each of the state's 58 counties and manages 130,000 acres of protected natural land available for university-level instruction, research and public outreach.

University Extension. The foremost continuing education program of its kind in size, scope and quality of instruction, University Extension offers more than 20,000 self-supporting courses statewide and in several foreign countries.

National laboratories. Under contract with the U.S. Department of Energy (DOE), the University manages Ernest Orlando Lawrence Berkeley National Laboratory and Lawrence Livermore National Laboratory in California and Los Alamos National Laboratory in New Mexico. The laboratories conduct broad and diverse basic and applied research in nuclear science, energy production, national defense and environmental and health areas.

Adoption of New Accounting Standards

The University's financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB). During 2002, the University adopted GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, an amendment of Statement No. 34, as well as two additional standards prescribing expanded disclosure. Each of these new standards was applied on a retroactive basis.

Significant changes to the financial statements are as follows:

- Financial statements are presented to focus on the University as a whole. Previously, financial statements focused on individual fund groups. The UCRS financial statements are now shown separately from the University's financial statements.
- The statement of net assets separates current from noncurrent assets and liabilities and classifies net assets into four categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.
- The statement of revenues, expenses and changes in net assets distinguishes operating from nonoperating revenues and expenses. The University will consistently report an operating loss since certain significant revenues relied upon for fundamental operational support of the core instructional mission of the University, including state educational appropriations, private gifts and investment income, are mandated by GASB Statement No. 34 to be reported as nonoperating revenues. Previously, there was not a concept of operating income or loss and state educational appropriations and investment income were appropriately matched with the associated expenses.
- The statement of cash flows distinguishes the University's cash flow from operating activities, noncapital financing activities, capital and related financing activities and investing activities. Previously, a cash flows statement was not required to be presented.
- The University's capital assets are depreciated over their economic useful lives. Previously, capital assets were not depreciated, but maintained at original cost. The cumulative effect of this accounting change was to reduce the University's net assets at June 30, 2000 by $7.69 billion. Depreciation and amortization expense of $754.0 million and $715.5 million was recorded in the statement of revenues, expenses and changes in net assets for 2002 and 2001, respectively. The net book value of the capital assets on the statement of net assets is $11.36 billion and $10.16 billion at June 30, 2002 and 2001, respectively.
- As capital assets are disposed, both the original cost and the accumulated depreciation associated with those assets are removed from the statement of net assets. Previously, only the original cost was removed since the University's capital assets were not depreciated.
- Cash associated with certain grants and contracts that is received in advance of the expense being incurred is recorded as deferred revenue. Revenue is accrued as earned. Previously, cash advances were included in net assets when received. The cumulative effect of this accounting change was to increase deferred revenue and reduce the University's net assets at June 30, 2000 by $191.9 million. The effect on the University's statement of net assets and statement of revenues, expenses and changes in net assets for 2002 and 2001 is not significant since both years have been restated and are comparable.
- Interest expense on outstanding debt is accrued through the end of the fiscal year. Previously, interest expense was recorded on a cash basis. The cumulative effect of this accounting change was to increase accrued interest payable and reduce the University's net assets at June 30, 2000 by $53.3 million. The effect on the University's statement of net assets and statement of revenues, expenses and changes in net assets for 2002 and 2001 is not significant since both years have been restated and are comparable.
- Federal refundable loans are classified as a liability to the federal government. Previously, they were included in net assets. The cumulative effect of this accounting change was to increase the federal refundable loan liability and reduce the University's net assets at June 30, 2000 by $181.3 million. The effect on the University's statement of net assets and statement of revenues, expenses and changes in net assets for 2002 and 2001 is not significant since both years have been restated and are comparable.

- Capital assets purchased by the University through federally sponsored awards, including assets where title is held by the federal government, are required to be capitalized and depreciated in the University's financial statements. Previously, these federally owned assets were not included in the University's financial statements. The cumulative effect of this accounting change was to increase both capital assets and the University's net assets at June 30, 2000 by $164.9 million (at original cost) and $71.5 million at net book value. The net book value of these capital assets on the statement of net assets totaled $46.5 million and $58.8 million at June 30, 2002 and 2001, respectively.
- Scholarship allowances applied to student accounts are recorded as an offset to student tuition and fee, housing and dining and other revenue. Payments of financial aid made directly to students continue to be classified as scholarship and fellowship expenses. Previously, all scholarships and fellowships were classified as expenses. Scholarship allowances applied to student accounts reduced both operating revenue and operating expense in the statement of revenues, expenses and changes in net assets by $285.3 million and $262.6 million for 2002 and 2001, respectively.

No financial reporting changes were required for the UCRS other than presentation as separate statements within the University's annual report.

The University's Financial Position

The statement of net assets presents the financial position of the University at the end of the fiscal year. It displays all of the University's assets and liabilities. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the University. At June 30, 2002 the University's assets were over $28 billion, liabilities were nearly $13 billion and net assets exceeded $15 billion, an increase of $615 million from 2001.

The major components of the assets, liabilities and net assets, compared to the prior year, are as follows (in millions of dollars):

	2002	2001	CHANGE
ASSETS			
Investments	$10,897	$10,634	$ 263
Investment of cash collateral	2,702	3,115	(413)
Accounts receivable, net	1,841	1,677	164
Capital assets, net	11,362	10,159	1,203
Other assets	1,289	1,296	(7)
Total assets	**28,091**	**26,881**	**1,210**
LIABILITIES			
Debt, including commercial paper	5,492	5,171	321
Securities lending collateral	2,700	3,112	(412)
Other liabilities	4,648	3,962	686
Total liabilities	**12,840**	**12,245**	**595**
NET ASSETS			
Invested in capital assets, net of related debt	6,118	5,323	795
Restricted:			
Nonexpendable	808	759	49
Expendable	3,875	4,342	(467)
Unrestricted	4,450	4,212	238
Total net assets	**$15,251**	**$14,636**	**$ 615**

The University's Assets

The University's investments totaled $10.90 billion at the end of 2002, $3.91 billion classified as a current asset and $6.99 billion as noncurrent. Investments classified as current assets are generally fixed income securities in the Short Term Investment Pool (STIP) with a maturity date within one year that are used for operating purposes and $760.3 million of funds held for others through agency relationships that are managed by the University. Noncurrent investments are generally those in the General Endowment Pool (GEP), High Income Pool (HIP) or separate investments that are the primary investment vehicles for endowed gifts.

Investments increased in 2002 by $262.8 million. Investments in the STIP increased due to the timing of the June payroll and benefit payments which were made in July this year, as opposed to June last year, partially offset by the net depreciation in the fair value of investments held in the GEP at the end of 2002. The net depreciation in the fair value of investments incorporates all changes in fair value, including both realized and unrealized gains and losses. During 2002, the sale of investments resulted in a net realized gain of $120.9 million. However, the net realized gain was more than offset by $568.7 million of net unrealized depreciation during the year in the fair value of investments held at the end of the year, primarily in the GEP. The modest realized gains were generated as falling interest rates and a prolonged equity market weakness required periodic re-balancing of assets in order to maintain the GEP's asset allocation plan. Investment losses associated with highly publicized failures of several large companies are also included as part of the net depreciation in fair value of investments during 2002. Some recovery of the investment losses is possible in the future.

The University participates in a securities lending program as a means to augment income. Securities are loaned to select brokerage firms for which collateral is received during the period of the loan. Cash collateral received, adjusted on a daily basis based upon the fair market value of the securities loaned, is invested and is also recorded as a liability. At the end of 2002, one of the lowest lending points during the year, the investment of cash collateral and the associated liability for collateral held by the University for securities on loan at the end of the year declined from 2001 by over $400 million. However, securities lending investment income, net of fees and rebates grew to $10.3 million in 2002 from $6.7 million in 2001 as the University retained a larger share of the earnings on securities loaned.

Accounts receivable increased to $1.84 billion in 2002 from $1.68 billion in 2001. Accounts receivable include those from the state and federal governments, those associated with medical centers that are related to patient care, from investment activity and from others, including those related to local and private grants and contracts and students. Increases associated with medical centers and a variety of other receivables were partially offset by collections in the other areas.

The required spending for capital assets is exceptional at this time in order to provide the facilities necessary to accommodate the current and future enrollment growth. These facilities include core academic buildings, libraries, student services, housing and auxiliary enterprises, health science centers, utility plants and infrastructure and remote centers for educational outreach, research and public service.

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. The original cost of capital assets increased by $1.71 billion in 2002, consisting of capital expenditures of $1.99 billion, partially offset by $282.9 million of capital assets disposed of during the year in the ordinary course of business. Capital expenditures in 2001 were $1.60 billion and asset disposals were $259.4 million. During 2002, capitalized costs for completed projects included $616.0 million for new buildings and improvements to existing buildings, $421.4 million for new equipment, $128.8 million for libraries and collections and $28.4 million for land and infrastructure. At the end of 2002, the increase from 2001 in the cost of projects under construction, net of the cost of those projects completed and reclassified during 2002 to buildings and improvements or equipment, totaled $791.3 million, bringing construction in progress at the end of the year to $2.23 billion.

Accumulated depreciation increased from $8.21 billion in 2001 to $8.71 billion in 2002. Depreciation expense for the year was $754.0 million and the accumulated depreciation on assets sold or disposed of during the year was $253.7 million. Substantially all of the disposals were for equipment that was fully depreciated or had reached the end of their useful lives.

Other assets of $1.29 billion in 2002, including investments held by trustees, noncurrent pledges receivable, notes and mortgages receivable and inventories, were unchanged from 2001.

The University's Liabilities

Capital expenditures are financed from a variety of sources, including University equity contributions, federal and state support, revenue bonds, certificates of participation, bank loans and leases. Commercial paper provides interim financing.

The University's debt used to finance capital assets, including $550 million of commercial paper outstanding at the end of both years, grew from $5.17 billion at the end of 2001 to $5.49 billion at the end of 2002, an increase of $320.9 million.

During 2002, new debt obligations totaled $503.4 million. The University issued Multiple Purpose Projects Revenue Bonds of $131.9 million in July 2001 and $44.8 million in October 2001. In December 2001, $122.8 million of Research Facility Revenue Bonds were issued. The proceeds from these bonds were used to repay interim commercial paper financing, for additional construction expenditures and for facility renewal projects. In March 2002, the University refinanced the acquisition of the Santa Monica–UCLA Medical Center through the issuance of $32.4 million of UCLA Medical Center Revenue Bonds. Certificates of participation totaling $45.5 million were issued in January 2002 to finance and refinance a cogeneration facility in San Diego and an office building in Sacramento. New capital lease obligations this year totaled $25.3 million, primarily for equipment. Mortgages and other borrowings added another $100.6 million to debt obligations, generally to provide interim financing for capital projects supported by gifts to be received in the near future. Subsequent to June 30, 2002, the University issued $365.9 million of Multiple Purpose Projects Revenue Bonds to finance certain facilities of the University, including the repayment of interim commercial paper financing of $326.4 million.

Debt service in 2002 was $438.8 million consisting of $182.4 for principal and $256.4 for interest, including accrued interest. Principal reductions during the year were primarily associated with scheduled debt service payments. The State of California provided $104.4 million of the University's debt service requirements this year through state appropriations under the terms of lease-purchase agreements that are recorded as capital leases.

Other liabilities, including accounts payable, accrued salaries and benefits, deferred revenue, funds held for others, federal refundable loans and self-insurance increased by $686.2 million, primarily due to accrued June payroll and benefit payments made in July this year, as opposed to in June of last year.

The University's Net Assets

Net assets represent the residual interest in the University's assets after all liabilities are deducted. The University's net assets at the end of 2002, totaling $15.25 billion, increased by $614.6 million during the year. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, grew from $5.32 billion in 2001 to $6.12 billion in 2002. The increase of $795.5 million represents the University's continuing investment in its physical facilities and accounts for substantially all of the University's overall increase in its net assets for 2002.

Restricted nonexpendable net assets totaling $807.6 million include the corpus of the University's permanent endowments and the estimated value of charitable remainder trusts. The increase during the year is primarily attributable to new permanent endowment gifts received during the year.

Restricted expendable net assets of $3.88 billion are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations, grants or contracts for specific programs or capital projects; trustee held investments; or other third party receipts. Net unrealized depreciation during the year in the fair value of investments was the primary reason for the decline in value from 2001.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are restricted internally and are allocated for academic and research initiatives or programs, or for capital purposes. In addition, unrestricted net assets include funds functioning as endowment of $939.9 million.

The University's Results of Operations

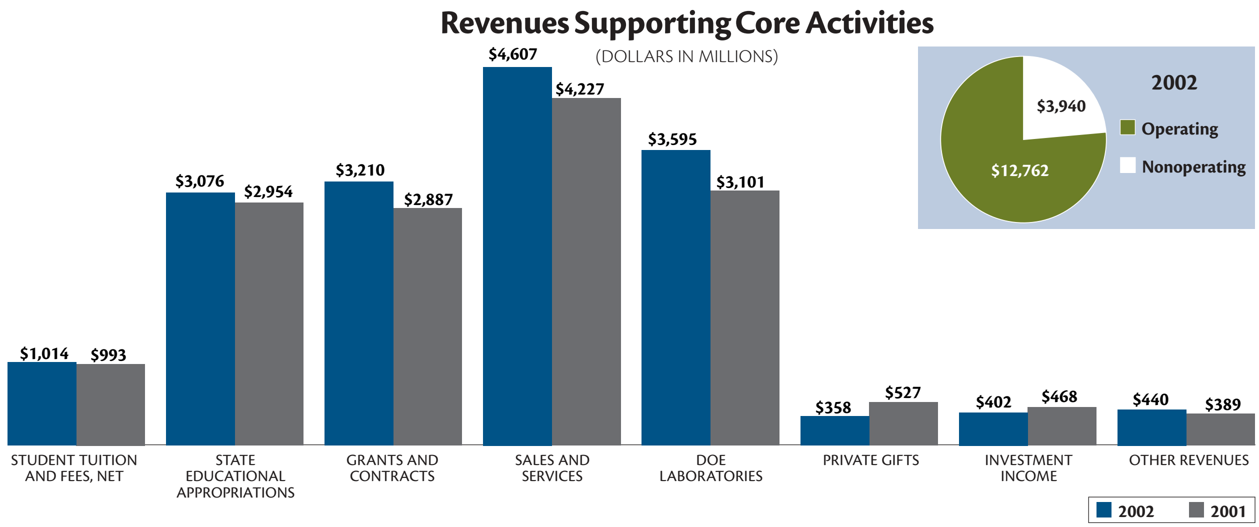
The statement of revenues, expenses and changes in net assets is a presentation of the University's operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for 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.

A summarized comparison of the operating results for 2002 and 2001, arranged in an informative format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows (in millions of dollars):

	YEAR ENDED JUNE 30, 2002			YEAR ENDED JUNE 30, 2001			
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	CHANGE
REVENUES							
Student tuition and fees, net	$ 1,014		$ 1,014	$ 993		$ 993	$ 21
State educational appropriations		$3,076	3,076		$ 2,954	2,954	122
Grants and contracts	3,210		3,210	2,887		2,887	323
Sales and services	4,607		4,607	4,227		4,227	380
Department of Energy laboratories	3,595		3,595	3,101		3,101	494
Private gifts		358	358		527	527	(169)
Investment income		402	402		468	468	(66)
Other revenues	336	104	440	285	104	389	51
Revenues supporting core activities	**12,762**	**3,940**	**16,702**	**11,493**	**4,053**	**15,546**	**1,156**
EXPENSES							
Salaries and benefits	7,663		7,663	7,045		7,045	618
Scholarships and fellowships	306		306	264		264	42
Utilities	257		257	330		330	(73)
Supplies and materials	1,285		1,285	1,320		1,320	(35)
Depreciation	754		754	715		715	39
Department of Energy laboratories	3,563		3,563	3,070		3,070	493
Interest expense		257	257		261	261	(4)
Other expenses	2,110	1	2,111	2,019	1	2,020	91
Expenses associated with core activities	**15,938**	**258**	**16,196**	**14,763**	**262**	**15,025**	**1,171**
Income (loss) from core activities	**$(3,176)**	**$3,682**	**506**	**$(3,270)**	**$3,791**	**521**	**(15)**
OTHER NONOPERATING ACTIVITIES							
Net depreciation in fair value of investments			(448)			(335)	(113)
Loss on disposal of capital assets, net of proceeds			(16)			(68)	52
Income before other changes in net assets			**42**			**118**	**(76)**
OTHER CHANGES IN NET ASSETS							
State capital appropriations			270			199	71
Capital gifts and grants			249			466	(217)
Permanent endowments			54			47	7
Increase in net assets			**615**			**830**	**(215)**
NET ASSETS							
Beginning of year			14,636			13,806	830
End of year			**$15,251**			**$14,636**	**$ 615**

Revenues Supporting Core Activities

Revenues to support the University's core activities, including those classified as nonoperating revenues, grew from $15.55 billion in 2001 to $16.70 billion in 2002, an increase of $1.15 billion. The University has very diversified sources of revenue. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes medical centers, educational activities and auxiliary enterprises such as student housing, food service operations and parking.



Student tuition and fees revenue, net of scholarship allowances, grew by $20.9 million in 2002 to $1.01 billion from $993.2 million in 2001. These fees are net of scholarship allowances of $285.3 million in 2002 and $262.6 million in 2001. Enrollment grew by 4.7 percent in 2002. California resident mandatory systemwide undergraduate and graduate student fees and professional school fees remained at 2001 levels as a result of additional educational appropriations from the State of California. In fact, additional educational appropriations from the State of California have resulted in no increase in California resident mandatory systemwide undergraduate and graduate fees for seven consecutive years. Tuition and fees for nonresident students were increased by 2.4 percent.

Educational appropriations from the State of California increased by $121.3 million to $3.08 billion in 2002. This revenue was primarily used to support increased enrollment, maintain affordable fees for students, increase employee salary and health benefit costs, expand summer instruction and start-up academic programs at the new Merced campus. The appropriation also provided revenue for clinical teaching support, to continue the K-12 Internet connectivity project and to support specific research.

Revenue from federal, state, private and local grants and contracts of $3.21 billion increased by $323.2 million, or 11.2 percent. Federal grant and contract revenue, including facilities and administration cost recovery of $416.7 million and direct expenditures of $1.64 billion, grew by $207.5 million, or 11.2 percent, to $2.06 billion due to an increase in both award levels and number of awards granted. This revenue represents support from a variety of agencies: Health and Human Services, $1.10 billion; National Science Foundation, $300.0 million; Department of Education, $186.5 million; Department of Defense, $138.7 million; National Aeronautics and Space Administration, $68.9 million; Department of Energy, excluding the revenue associated with the national laboratories, $81.2 million; and other federal agencies, $182.8 million. State (including special research appropriations), private and local grants and contracts increased by $48.1 million (12.3 percent), $62.5 million (12.0 percent) and $5.0 million (4.1 percent), respectively, highlighting the continued competitive and effective nature of the University's research enterprise.

Revenue from medical centers, educational activities and auxiliary enterprises of $4.61 billion increased by $379.4 million, or 9.0 percent from 2001. Medical center revenue grew by $236.1 million over the prior year to $3.07 billion. The revenue growth is primarily due to a combination of rate increases and an increase in patient activity (a 1.9 percent increase in patient days and a 1.8 percent increase in outpatient visits). Sales from educational activities, primarily physicians' professional fees, grew by $77.5 million, or 10.0 percent. Sales from auxiliary enterprises grew by $65.8 million, or 10.6 percent, as a result of the demand associated with enrollment growth and fee increases to support new and remodeled facilities.

The three national laboratories with a combined workforce of 19,600 operate on federally financed budgets totaling $3.60 billion in 2002 (including the University's contract fee), an increase of $493.9 million from 2001. The laboratories' expenses, totaling $3.56 billion, are recorded as operating expenses. The current contracts for the Livermore and Los Alamos laboratories extend through September 2005. The Berkeley laboratory contract has been extended through January 2003, and is currently being renegotiated for a new five-year term. Compensation to the University under the contracts, totaling $32.2 million in 2002, is based, in part, on performance. A substantial portion of the compensation is returned to the laboratories for research activities.

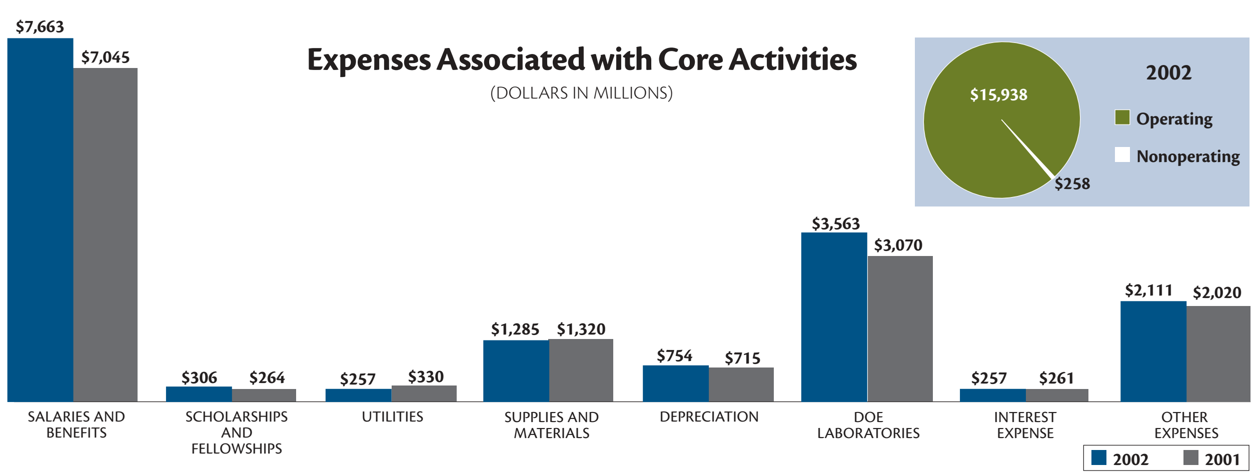
Private gifts, mainly restricted as to use, declined by nearly 32 percent in 2002 to $358.3 million. The University continues to be aggressive in developing private revenue sources, although the nation's economy and decline in the equity markets are having a substantial effect on charitable giving. In addition to private gifts for operating purposes, gifts are also received for capital purposes that are recorded as capital gifts and grants.

Investment income for the year of $401.6 million, principally consisting of $251.7 million from the STIP and $139.6 million from endowments, declined by $66.0 million from $467.6 million in 2001. Although 2002 investment returns were 5.0 percent in the University's STIP (6.2 percent for 2001), investment income fell by 15.3 percent, or $45.4 million, compared to 2001 as short-term interest rates declined throughout the year. Endowment income also fell by $24.1 million, or 14.7 percent.

Other revenues for 2002 of $440.0 million, including $104.4 million of state financing appropriations reported as nonoperating revenue and $335.6 million reported as operating revenue, increased by $50.9 million from 2001. The State of California financing appropriation is directly related to the required rental payments under lease-purchase agreements with the State of California. Other operating revenue comes from a variety of sources, including patent income. Patent income increased in 2002 by $16.9 million.

Expenses Associated with Core Activities

The University's expenses associated with core activities for 2002, including those classified as nonoperating expenses, were $16.20 billion, up $1.17 billion, or 7.8 percent, from $15.03 billion in 2001. Nearly half the University's expenses are related to salaries and benefits and another 22 percent, or $3.56 billion, involve the national laboratories that are discussed above. Salaries and benefits attributable to the employees working in the national laboratories are included as laboratory expenses.



Salaries and benefits of $7.66 billion in 2002 ($6.52 billion of salaries and wages and $1.14 billion of benefits) grew by $618.6 million from 2001, an increase of 8.8 percent. There are approximately 114,000 full time equivalent employees in the University, excluding the 19,600 that are associated with the three national laboratories. Salaries and wages, excluding benefits, increased by $482.2 million, or 8.0 percent. More than half of the increase was related to new academic and administrative employees necessary to support the increase in enrollment and other academic, research and public service programs. Benefit costs increased by $136.5 million, or 13.5 percent, primarily due to health insurance costs. There were also substantial increases in the University's share of payroll taxes and workers' compensation costs.

Scholarships and fellowships, payments of financial aid made directly to students reported as an operating expense, were $305.6 million in 2002, up by 15.9 percent. Scholarship allowances, financial aid and fee waivers by the University, are also a form of scholarship and fellowship cost that increased in 2002 by 8.6 percent to $285.2 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, financial aid to students in all forms grew from $526.2 million in 2001 to $590.8 million in 2002, an increase of $64.6 million or 12.3 percent.

Utility costs dropped by 22.3 percent to $256.7 million in 2002. Natural gas costs throughout the state declined dramatically in 2002 from 2001 levels. Supplies and materials costs fell by $35.3 million, or 2.7 percent, to $1.28 billion primarily due to lower costs for computer equipment. Higher capital spending over the past several years necessary to upgrade facilities and support the enrollment growth resulted in depreciation and amortization expense increasing to $754.0 million from $715.5 million in 2001. Interest expense, reported as a nonoperating expense, dropped by $4.5 million, from $260.9 million in 2001 to $256.4 million in 2002, as interest rates on commercial paper used for interim financing fell from a year ago. Other operating expenses grew to $2.11 billion, an increase of $91.0 million. Both general repairs and maintenance expenses, along with insurance costs, climbed from 2001 levels.

In 2002, the operating loss of $3.18 billion was more than offset by $3.68 billion of revenue and expenses classified as nonoperating. Revenue to support core activities exceeded the associated expenses by $505.7 million in 2002 and $521.4 million in 2001. This income is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, necessary for debt service or required for capital purposes.

Other Nonoperating Activities

The University's nonoperating activities that are generally non-cash transactions and therefore are not available to be used to support operating expenses are the net appreciation or depreciation in the fair value of investments and the gain or loss on the disposal of capital assets.

The University recorded net depreciation in the fair value of investments of $447.8 million during 2002, primarily due to unrealized depreciation in the fair value of investments held at year-end in the GEP as a result of prolonged equity market weakness. Equity losses were partially offset by gains in the fixed income portion of the portfolio. The STIP, primarily consisting of fixed income securities with a maximum maturity of five years, has minimal unrealized appreciation or depreciation in any year.

Routine disposals and write-offs of capital assets resulted in a loss of $15.6 million in 2002 compared to $67.9 million in 2001.

Other Changes in Net Assets

Similar to other nonoperating activities discussed above, other changes in net assets also are generally not available to be used to support the University's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital asset. Income earned from gifts of permanent endowments is available in future years to support the specified program.

The University's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the State of California increased by $70.5 million from $199.3 million in 2001 to $269.8 million in 2002. This represents the final appropriation from the State of California's general obligation bond measure passed in 1998 that has provided support for over $800 million of University capital projects over the past four years. Capital gifts and grants were $249.2 million in 2002, down from $465.7 million in 2001. In 2002, private gifts totaled $113.4 million and grants from the Federal Emergency Management Agency (FEMA) were in excess of $100 million.

Gifts of permanent endowments to the University increased slightly by $6.7 million to $53.4 million in 2002.

The University's Cash Flows

The statement of cash flows presents the significant sources and uses of cash. The University's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts on a daily basis.

A summary comparison of cash flows for 2002 and 2001 is as follows (in millions of dollars):

	2002	2001	CHANGE
Cash received from operations	$ 8,929	$ 8,278	$ 651
Cash payments for operations	(10,938)	(10,704)	(234)
Net cash used by operating activities	**(2,009)**	**(2,426)**	**417**
Net cash provided by noncapital financing activities	3,534	3,512	22
Net cash used by capital and related financing activities	(1,184)	(838)	(346)
Net cash used by investing activities	(361)	(202)	(159)
Net (decrease) increase in cash	**(20)**	**46**	**(66)**
Cash, beginning of year	152	106	46
Cash, end of year	**$ 132**	**$ 152**	**$ (20)**

The University's cash in demand deposit accounts decreased by $20.0 million, from $152.0 million in 2001 to $132.0 million in 2002. Nearly $2.01 billion of cash was used for operating activities, offset by $3.53 billion of cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include State educational appropriations and gifts received for other than capital purposes that are used to support operational activities.

Cash of $1.18 billion was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include state and federal (FEMA) capital appropriations, gifts for capital purposes and new external financing.

Cash used by investing activities totaled $360.5 million compared to $201.7 million in 2001. The activity associated with the STIP is separated from other investment activity. STIP investments increased in 2002 as investment purchases of $62.39 billion exceeded $61.84 billion of proceeds from the sale or maturity of STIP investments. Purchases and sales activity of other investments resulted in a $225.3 million net use of cash and an increase in investments.

THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

The UCRS is a valuable component of the comprehensive benefits package offered to employees of the University. The UCRS consists of the University of California Retirement Plan (the UCRP), a defined benefit plan for members, the Defined Contribution Plan (the DCP) and the Tax-Deferred 403(b) Plan (the 403(b) Plan) to complement the defined benefit plan, with several investment portfolio options for participants' elective and non-elective contributions, and the Public Employees Retirement System Voluntary Early Retirement Incentive Program for University employees who elected early retirement.

The UCRS' Financial Position

The statement of plans' fiduciary net assets presents the financial position of the UCRS at the end of the fiscal year. It displays all of the retirement system's assets, liabilities and net assets. At June 30, 2002, the UCRS plans' assets exceeded $51.0 billion, liabilities were nearly $8.6 billion and net assets held in trust for pension benefits approached $42.5 billion. The difference between assets and liabilities are the net assets held in trust for pension benefits. This represents amounts available to provide pension benefits to members of the UCRP and participants in the DCP and the 403(b) Plan.

The major components of the assets, liabilities and net assets available for pension benefits, compared to the prior year are as follows (in millions of dollars):

	2002	2001	CHANGE
ASSETS			
Investments	$41,006	$45,637	$(4,631)
Participants' interest in external mutual funds	1,403	1,510	(107)
Investment of cash collateral	7,892	9,356	(1,464)
Other assets	745	513	232
Total assets	**51,046**	**57,016**	**(5,970)**
LIABILITIES			
Securities lending collateral	7,888	9,348	(1,460)
Other liabilities	706	570	136
Total liabilities	**8,594**	**9,918**	**(1,324)**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Members' defined benefit plan benefits	34,515	38,954	(4,439)
Participants' defined contribution plan benefits	7,937	8,144	(207)
Total net assets held in trust for pension benefits	**$42,452**	**$47,098**	**$(4,646)**

The UCRS' investments totaled $41.01 billion at the end of 2002 compared to $45.64 billion at the end of 2001. Investments decreased by $4.63 billion in 2002, primarily as a result of the $5.38 billion net depreciation in the fair value of investments held at the end of the year. As with the University's investments, falling interest rates and a prolonged equity market weakness required periodic re-balancing of assets in order to maintain the asset allocation plan. During 2002, the sale of investments resulted in a net realized gain of $1.26 billion. However, the net realized gain was more than offset by $6.64 billion of net unrealized depreciation during the year in the fair value of assets held in the UCRS investment portfolio at the end of the year. Investment losses associated with highly publicized failures of several large companies are also included as part of the net depreciation in fair value of investments during 2002. Some recovery of the investment losses is possible in the future.

Participants' interest in external mutual funds, representing DCP and 403(b) Plan contributions to certain external mutual funds on a custodial plan basis, declined by $107.6 million to $1.40 billion. Again, this was primarily as a result of the net depreciation in fair value of investments at the end of the year.

Along with the University, the UCRS participates in a securities lending program as a means to augment income. At June 30, 2002, one of the lowest points during the year, the investment of cash collateral and the associated liability for collateral held by the UCRS for securities on loan at the end of the year declined from 2001 by $1.46 billion. However, during 2002 the securities lending investment income, net of fees and rebates, grew to $31.7 million in 2002 from $23.6 million in 2001.

Over $34.5 billion of the net assets are dedicated to the UCRP members' defined benefit plan benefits and over $7.9 billion are associated with participants' tax deferred or defined contribution plan benefits. As of June 30, 2002, the date of the most recent actuarial report, UCRP's funded ratio was 138.4 percent compared to 147.7 percent as of June 30, 2001. This indicates that for every dollar of benefits due to UCRP members, assets of $1.38 are available to cover benefit obligations.

The UCRS' Results of Operations

The statement of changes in plans' fiduciary net assets is a presentation of the UCRS' operating results for the year. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2002 and 2001 is as follows (in millions of dollars):

	2002	2001	CHANGE
ADDITIONS (REDUCTIONS)			
Contributions	$ 675	$ 620	$ 55
Net depreciation in fair value of investments	(5,382)	(4,609)	(773)
Investment and other income	1,350	1,693	(343)
Total additions (reductions)	**(3,357)**	**(2,296)**	**(1,061)**
DEDUCTIONS			
Benefit payments and participant withdrawals	1,253	1,152	101
Plan expenses	36	34	2
Total deductions	**1,289**	**1,186**	**103**
Decrease in net assets held in trust for pension benefits	**$(4,646)**	**$(3,482)**	**$(1,164)**

Contributions for 2002 were $675.4 million, an increase of $55.1 million from 2001. Due to the UCRP's funded position, neither the University nor the majority of the members has been required to make contributions since 1990. However, participants are required to make contributions to the DCP and may make voluntary and rollover contributions to the DCP and the 403(b) Plan. During the year, participants made mandatory and voluntary contributions of over $250.0 million into the DCP. In addition, participants voluntarily contributed nearly $420.0 million into the 403(b) Plan.

As discussed above, the net depreciation in fair value of investments includes both realized and unrealized gains and losses on investments. The unrealized depreciation includes amounts related to participants' interest in external mutual funds totaling $261.3 million in 2002 and $470.2 million in 2001. The 2002 investment loss for the UCRS was 8.5 percent.

Investment and other income of $1.35 billion in 2002 decreased by $343.3 million or 20.3 percent from a year ago. This was a result of falling interest rates and prolonged equity market weakness, which required periodic re-balancing of assets in order to maintain the asset allocation plan. Benefit payments and participant withdrawals increased by 8.8 percent primarily due to an increase in the number of retirees receiving payments and cost-of-living adjustments.

LOOKING FORWARD

The University's financial position is strong and well positioned to meet any short-term obstacles. The University's quality is a hallmark for the State of California and the nation. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in state, federal and private funding and promotes discovery of new knowledge that fuels economic growth.

Major financial strengths of the University include a diverse source of revenues, including those from student fees, the State of California, federally sponsored grants and contracts, medical centers, private support and self supporting enterprises.

The projected enrollment growth in 2003 is 7,100 students. It is expected that enrollment will continue to grow by approximately 5,000 students per year over the remainder of the decade. By 2011, the University will reach its planned target of 217,500 students. This dramatic growth over a sustained period of time certainly presents the University with both opportunities and challenges.

Student fees for California residents in 2003 have not yet been determined. However, there is an 8.7 percent increase for nonresident undergraduate and 2.7 percent for nonresident graduate students that will generate approximately $11.9 million in new fee revenue. Including the fee income associated with increased enrollment growth, fee revenue will increase by nearly $30 million in 2003. This could be higher if mid-year State of California budget reductions are made by the Governor that necessitate resident student fee increases.

While the long-term prospects for the State of California look strong, there are major short-term financial problems. The State of California faces reductions in state spending to address a shortfall in its 2003 budget. The 2003 revenues from the State of California to support the University's operating budget have not yet been finalized by the Governor, however the budget as it currently stands, prior to any mid-year reductions that may still occur, is approximately three percent less than the prior year. Across-the-board reductions in core instructional programs to address any mid-year reductions will be avoided, if possible.

The University remains highly competitive in terms of attracting federal grant and contract revenue, with fluctuations in the University's share closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the University's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Defense, the National Aeronautical and Space Agency and the Department of Energy. Between 1998 and 2002, federal research revenue has increased on an annual basis from 7.0 percent to 9.5 percent. The outcome of the federal budget process has important ramifications for the University's research budget.

The University's medical centers face financial challenges in a price-sensitive managed care environment. The demand for health care services and the cost of providing them are increasing significantly while the revenues to support these services are diminishing. In addition to cost increases faced by hospitals across the state, such as rising salary and benefit costs, the University's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. In recent years, federal legislation has been enacted to slow future rate increases in Medicare and Medicaid and reduce medical education and disproportionate share funding. In addition, as a result of state legislation, the medical centers face capital requirements to ensure that facilities can maintain uninterrupted operations following a major earthquake.

The continuing financial success of the medical centers is dependent on dedicated and sustained financial support for medical education and care for the poor. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

The medical centers remain competitive in their respective markets by reducing costs and by expanding their presence in the market. Short-term and long-range solutions to address financial challenges continue to be pursued at both the state and federal level.

The University's remarkable achievement in recent years in obtaining private support is a testament to its distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which the University is held. The level of private support underscores the continued confidence among donors in the quality of the University's programs and the importance of its mission. At the same time, private support is beginning to reflect the changes in the economy and financial markets, the effect of which is likely to be more pronounced in 2003.

Affordable, accessible student housing will be required in order to satisfy the demand associated with increased enrollment growth. Most campus residence halls continue to be occupied at over 100 percent of design capacity. The University is responding to the demand by building student housing in the traditional manner, with housing fees set to generate sufficient revenue to cover direct and indirect operating costs and debt service, and by seeking development opportunities for privately owned housing on University campuses.

The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. The support for the University's capital program will be provided from a combination of sources, including the State of California, external financing, gifts and other sources.

In the spring of 2002, the State Legislature and the Governor agreed on a new general obligation bond package for education, including both K-12 schools and higher education. This package proposes two Public Education Facilities Bond Acts, one for 2002 and one for 2004, authorizing a total of $27 billion in general education bond funding over four years to support K-12 and higher education facility needs. The first bond measure will be on the November 2002 ballot. If approved by the California voters, the amount of general obligation bond funding available to the University from the 2002 bond measure will be approximately $408 million over the two-year period covered by the measure. In a separate action, the State of California also authorized $305.8 million in lease revenue bonds for the classroom design and construction at the Merced campus and to accelerate support for seven projects that originally were scheduled for funding from the 2002 general obligation bonds. This acceleration allowed the University to move more quickly on projects originally scheduled for 2003, so construction could actually begin in 2002. Also, legislation was approved to authorize $218.5 million in lease revenue bonds for the California Institutes for Science and Innovation to provide the balance of funding needed for design and construction of the Institutes.

If the second bond measure is approved by the California voters in 2004, the University will receive another $690 million for its capital program for the two-year period 2005 and 2006.

There are also plans for additional capital projects that are traditionally not considered to be state supportable. This is a continuing process that is amended as required to include projects when gifts, or other supplemental resources, are obtained or financing plans are developed.

UC Merced, the tenth University campus, anticipates enrolling 1,000 students in fall 2004 with the completion of three academic buildings and the first phase of the campus infrastructure.

The financial condition of the UCRS is very strong. Actuarial reviews have determined that, given the financial position and its ample ability to meet its benefit obligations, employer and member contributions are not currently needed and will not be needed in 2003.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the University, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the University expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The University does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

REPORT OF INDEPENDENT ACCOUNTANTS

To The Regents of the University of California

In our opinion, the financial statements listed in the table of contents on page 3, which collectively comprise the financial statements of the University of California (the "University"), present fairly, in all material respects, the financial position and plans' fiduciary net assets of the University and the University of California Retirement System (the "Plans"), respectively, at June 30, 2002 and 2001, and the revenues, expenses and changes in net assets and cash flows of the University and the changes in Plans' fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in the "Summary of Signicant Accounting Policies" note to the financial statements, as of July 1, 2001, the University adopted Governmental Accounting Standards Board 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", as well as 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."

PricewaterhouseCoopers LLP

San Francisco, California
September 25, 2002

36

UNIVERSITY OF CALIFORNIA

STATEMENT OF NET ASSETS

AT JUNE 30, 2002 AND 2001 (IN THOUSANDS OF DOLLARS)

	2002	2001
ASSETS		
Cash	$ 132,002	$ 152,046
Short-term investments	3,909,817	3,086,267
Investment of cash collateral	2,343,698	2,836,223
Investments held by trustees	98,597	106,774
Accounts receivable, net	1,840,611	1,676,918
Current portion of notes and mortgages receivable, net	43,123	50,845
Inventories	104,906	111,923
Other current assets	99,440	84,892
Current assets	**8,572,194**	**8,105,888**
Investments	6,986,830	7,547,627
Investment of cash collateral	358,039	278,403
Investments held by trustees	363,565	309,814
Notes and mortgages receivable, net	253,497	244,009
Land, buildings, equipment, libraries and collections, net	11,362,053	10,159,463
Other noncurrent assets	195,313	236,067
Noncurrent assets	**19,519,297**	**18,775,383**
Total assets	**28,091,491**	**26,881,271**
LIABILITIES		
Accounts payable	1,102,640	1,031,221
Accrued salaries and benefits	625,891	316,014
Deferred revenue	766,598	614,574
Collateral held for securities lending	2,700,486	3,111,950
Commercial paper	550,000	550,000
Current portion of long-term debt	238,738	154,983
Funds held for others	760,278	708,469
Other current liabilities	595,733	538,298
Current liabilities	**7,340,364**	**7,025,509**
Federal refundable loans	184,835	188,367
Self-insurance	281,654	259,906
Long-term debt	4,703,380	4,466,213
Other noncurrent liabilities	330,134	304,742
Noncurrent liabilities	**5,500,003**	**5,219,228**
Total liabilities	**12,840,367**	**12,244,737**
NET ASSETS		
Invested in capital assets, net of related debt	6,118,273	5,322,784
Restricted:		
Nonexpendable:		
Endowments	684,843	634,412
Annuity and life income funds	122,803	124,365
Expendable:		
Endowments	1,090,364	1,353,816
Funds functioning as endowments	1,283,124	1,472,088
Gifts	584,071	590,538
Loans	105,240	100,918
Capital projects	334,329	401,375
Debt service	79,703	79,218
Appropriations	43,599	31,557
Other	354,596	313,633
Unrestricted	4,450,179	4,211,830
Total net assets	**$15,251,124**	**$ 14,636,534**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2002 AND 2001 (IN THOUSANDS OF DOLLARS)

	2002	2001
OPERATING REVENUES		
Student tuition and fees, net	$ 1,014,124	$ 993,198
Grants and contracts:		
Federal	2,059,091	1,851,596
State	438,740	390,609
Private	583,949	521,458
Local	127,889	122,838
Sales and services:		
Medical centers	3,070,295	2,834,201
Educational activities	849,446	771,930
Auxiliary enterprises, net	686,961	621,168
Department of Energy laboratories	3,595,374	3,101,497
Other operating revenues, net	335,637	284,646
Total operating revenues	**12,761,506**	**11,493,141**
OPERATING EXPENSES		
Salaries and wages	6,516,795	6,034,641
Benefits	1,146,480	1,009,999
Scholarships and fellowships	305,553	263,568
Utilities	256,720	330,370
Supplies and materials	1,284,576	1,319,837
Depreciation	754,042	715,497
Department of Energy laboratories	3,563,157	3,070,379
Other operating expenses	2,110,609	2,018,585
Total operating expenses	**15,937,932**	**14,762,876**
Operating loss	**(3,176,426)**	**(3,269,735)**
NONOPERATING REVENUES (EXPENSES)		
State educational appropriations	3,075,669	2,954,342
State financing appropriations	104,379	104,435
Private gifts	358,315	527,026
Investment income:		
Short Term Investment Pool and other	251,728	297,158
Endowment	139,586	163,718
Securities lending, net	10,279	6,687
Net depreciation in fair value of investments	(447,837)	(334,949)
Interest expense	(256,438)	(260,903)
Loss on disposal of capital assets	(15,611)	(67,888)
Other nonoperating expenses	(1,409)	(1,348)
Net nonoperating revenues	**3,218,661**	**3,388,278**
Income before other changes in net assets	**42,235**	**118,543**
OTHER CHANGES IN NET ASSETS		
State capital appropriations	269,803	199,290
Capital gifts and grants	249,166	465,704
Permanent endowments	53,386	46,702
Increase in net assets	**614,590**	**830,239**
NET ASSETS		
Net assets, beginning of year (as restated)	14,636,534	13,806,295
Net assets, end of year	**$15,251,124**	**$14,636,534**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2002 AND 2001 (IN THOUSANDS OF DOLLARS)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees, net	$ 1,012,178	$ 991,111
Grants and contracts	3,312,766	2,789,976
Receipts from sales and services of:		
Medical centers	2,993,827	2,808,197
Educational activities	870,152	741,742
Auxiliary enterprises, net	689,306	620,144
Payments to employees	(6,298,807)	(5,998,844)
Payments to suppliers and utilities	(3,332,764)	(3,516,638)
Payments for benefits	(1,001,247)	(924,912)
Payments for scholarships and fellowships	(305,398)	(263,729)
Other receipts	51,043	327,065
Net cash used by operating activities	**(2,008,944)**	**(2,425,888)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State educational appropriations	3,078,484	3,020,255
Gifts received for other than capital purposes:		
Private gifts for endowment purposes	40,347	41,396
Other private gifts	412,639	450,686
Other receipts (payments)	2,355	(119)
Net cash provided by noncapital financing activities	**3,533,825**	**3,512,218**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Commercial paper financing:		
Proceeds from issuance	283,411	292,917
Payments of principal	(283,411)	(292,917)
Interest paid	(10,425)	(21,865)
State capital appropriations	310,425	216,055
State financing appropriations	106,863	120,035
Capital gifts and grants	223,857	174,033
Proceeds from debt issuance	478,056	439,856
Proceeds from the sale of capital assets	12,847	2,035
Purchases of capital assets	(1,875,908)	(1,291,571)
Principal paid on debt and capital leases	(182,455)	(263,566)
Interest paid on debt and capital leases	(247,670)	(213,761)
Net cash used by capital and related financing activities	**(1,184,410)**	**(838,749)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments:		
Short Term Investment Pool	61,844,702	75,555,882
Other investments	1,485,521	1,467,755
Purchase of investments:		
Short Term Investment Pool	(62,387,287)	(76,449,956)
Other investments	(1,710,851)	(1,211,339)
Investment income, net of investment expenses	407,400	435,973
Net cash used by investing activities	**(360,515)**	**(201,685)**
Net (decrease) increase in cash	**(20,044)**	**45,896**
Cash, beginning of year	152,046	106,150
Cash, end of year	**$ 132,002**	**$ 152,046**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA

STATEMENT OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2002 AND 2001 (IN THOUSANDS OF DOLLARS)

	2002	2001
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$(3,176,426)	$(3,269,735)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	754,042	715,497
Allowance for doubtful accounts	12,276	(2,940)
Change in assets and liabilities:		
Receivables, net	(202,984)	(148,593)
Investments held by trustees	(39,947)	(43,539)
Inventories	7,016	(7,395)
Other assets	(18,054)	23,840
Accounts payable	154,911	138,113
Accrued salaries and benefits	309,877	34,835
Deferred revenue	97,570	67,544
Self-insurance	50,991	40,451
Other liabilities	41,784	26,034
Net cash used by operating activities	**$(2,008,944)**	**$(2,425,888)**

	2002	2001
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Capital assets acquired through capital leases	$ 25,320	$ 24,260
Capital assets acquired with a liability at year-end	53,070	26,034
Loss on the disposal of capital assets	15,611	67,888
Gifts of capital assets	65,999	36,891
Securities lending activity	(411,464)	1,537,419

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

STATEMENT OF PLANS' FIDUCIARY NET ASSETS

AT JUNE 30, 2002 AND 2001 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA DEFINED CONTRIBUTION PLAN AND TAX DEFERRED 403(b) PLAN	UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PROGRAM PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2002	2002	2002	2002	2001
ASSETS					
Investments	$34,529,978	$ 6,403,527	$ 72,783	$41,006,288	$45,637,282
Investment of cash collateral	5,468,665	2,423,305		7,891,970	9,355,655
Participants' interest in external mutual funds		1,402,917		1,402,917	1,510,494
Participant 403(b) loans		63,829		63,829	68,494
Accounts receivable:					
Contributions	92,716	27,766		120,482	103,061
Investment income	167,187	46,161		213,348	240,675
Security sales and other	300,023	47,132		347,155	100,430
Total assets	**40,558,569**	**10,414,637**	**72,783**	**51,045,989**	**57,016,091**
LIABILITIES					
Payable for securities purchases	620,030	55,210		675,240	537,792
Member withdrawals, refunds and other payables	30,599		27	30,626	32,458
Collateral held for securities lending	5,466,135	2,422,184		7,888,319	9,347,615
Total liabilities	**6,116,764**	**2,477,394**	**27**	**8,594,185**	**9,917,865**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Members' defined benefit plan benefits	34,441,805		72,756	34,514,561	38,954,530
Participants' defined contribution plan benefits		7,937,243		7,937,243	8,143,696
Total net assets held in trust for pension benefits	**$ 34,441,805**	**$ 7,937,243**	**$72,756**	**$42,451,804**	**$47,098,226**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET ASSETS

YEARS ENDED JUNE 30, 2002 AND 2001 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA DEFINED CONTRIBUTION PLAN AND TAX DEFERRED 403(b) PLAN	UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PROGRAM PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2002	2002	2002	2002	2001
ADDITIONS (REDUCTIONS)					
Contributions:					
Participants		$ 668,856		$ 668,856	$ 615,330
Members	$ 2,954			2,954	4,405
Employer	118	3,440		3,558	517
Total contributions	**3,072**	**672,296**		**675,368**	**620,252**
Investment income (loss):					
Net depreciation in fair value of investments	(4,561,202)	(814,279)	$ (7,324)	(5,382,805)	(4,609,315)
Interest, dividends, and other investment income	1,068,996	241,142		1,310,138	1,661,273
Securities lending income	177,507	61,855		239,362	531,612
Investment expenses	(153,800)	(53,833)		(207,633)	(507,970)
Total investment loss	**(3,468,499)**	**(565,115)**	**(7,324)**	**(4,040,938)**	**(2,924,400)**
Interest income from contributions receivable	7,785			7,785	8,047
Total additions (reductions)	**(3,457,642)**	**107,181**	**(7,324)**	**(3,357,785)**	**(2,296,101)**
DEDUCTIONS					
Benefit payments:					
Retirement payments	604,352		4,542	608,894	554,630
Member withdrawals	26,460			26,460	23,881
Cost-of-living adjustments	125,763			125,763	107,056
Lump sum cashouts	134,025			134,025	149,757
Preretirement survivor payments	20,189			20,189	18,753
Disability payments	27,132			27,132	25,414
Death payments	6,286			6,286	5,847
Other benefit payments		606		606	726
Participant withdrawals		303,255		303,255	265,416
Total benefit payments	**944,207**	**303,861**	**4,542**	**1,252,610**	**1,151,480**
Expenses:					
Plan administration	25,427	9,773	8	35,208	32,339
Other	819			819	1,931
Total expenses	**26,246**	**9,773**	**8**	**36,027**	**34,270**
Total deductions	**970,453**	**313,634**	**4,550**	**1,288,637**	**1,185,750**
Decrease in net assets held in trust for pension benefits	**(4,428,095)**	**(206,453)**	**(11,874)**	**(4,646,422)**	**(3,481,851)**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of year	38,869,900	8,143,696	84,630	47,098,226	50,580,077
End of year	**$34,441,805**	**$7,937,243**	**$72,756**	**$42,451,804**	**$47,098,226**

See accompanying Notes to Financial Statements

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 NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED
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 REVENUES	OPERATING (EXPENSES)	NONOPERATING REVENUES (EXPENSES)	NET ASSETS
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' statement of plans' fiduciary net 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 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 $129.5 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
Operation 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	$ 226,352
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**	**606,046**
LIABILITIES				
Current liabilities	132,670	152,071	79,996	98,707
Long-term debt	343,501	152,832	90,688	166,698
Other noncurrent liabilities				44,062
Total liabilities	**476,171**	**304,903**	**170,684**	**309,467**
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		97,604	1,072	
Health systems support	(24,684)	(25,479)	(21,999)	(11,669)
Transfers (to) from University, net	(202)	12,864	1,359	
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	$ 208,672
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**	**593,660**
LIABILITIES				
Current liabilities	101,625	116,909	83,113	96,953
Long-term debt	349,591	153,848	94,149	169,193
Other noncurrent liabilities				46,052
Total liabilities	**451,216**	**270,757**	**177,262**	**312,198**
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 related to 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.

CAMPUS FACTS IN BRIEF 2002

	UCB	UCD	UCI	UCLA	UCM	UCR	UCSD	UCSF	UCSB	UCSC	SYSTEMWIDE PROGRAMS AND ADMINISTRATION[3]
STUDENTS											
Undergraduate fall enrollment	23,269	21,411	17,865	25,328		12,836	17,514	34	17,733	12,034	
Graduate fall enrollment	8,859	5,881	4,020	12,166		1,593	4,044	3,540	2,640	1,136	
Total fall enrollment	**32,128**	**27,292**	**21,885**	**37,494**		**14,429**	**21,558**	**3,574**	**20,373**	**13,170**	
University Extension enrollment	54,989	71,451	25,904	99,595		31,342	31,407		9,720	41,196	23,757
DEGREES CONFERRED[1]											
Bachelor	5,798	4,606	3,459	6,309		1,963	3,769	21	4,629	2,513	
Advanced	2,739	1,325	974	3,511		323	1,003	637	697	293	
Cumulative	481,766	157,401	87,124	392,000		51,790	88,534	41,834	143,137	56,133	
FACULTY AND STAFF (full time equivalent)	13,745	17,681	10,456	26,164	87	4,086	15,017	14,176	5,692	3,783	3,395
LIBRARY COLLECTION (volumes)	9,447,311	3,241,170	2,199,218	7,735,371		2,139,334	2,938,357	805,935	2,715,931	1,369,016	
CAMPUS LAND AREA (in acres)	3,088	5,326	1,517	419	4	1,381	2,141	137	975	3,003	2

CAMPUS FINANCIAL FACTS[2] (IN THOUSANDS OF DOLLARS)

	UCB	UCD	UCI	UCLA	UCM	UCR	UCSD	UCSF	UCSB	UCSC	SYSTEMWIDE PROGRAMS AND ADMINISTRATION[3]
Operating expenses by function											
Instruction	$ 408,410	$ 348,090	$293,562	$ 725,705	$ 408	$ 98,062	$ 289,532	$ 139,423	$159,283	$106,074	$35,424
Research	342,687	308,106	142,791	475,966	21	72,274	407,038	413,054	94,685	50,419	110,597
Public service	50,717	51,545	12,628	55,125	2,765	4,236	11,466	49,197	6,961	24,499	175,793
Academic support	71,777	105,674	76,999	255,907	904	28,381	130,717	193,413	30,986	21,698	69,886
Student services	87,544	42,157	39,201	55,839	230	27,124	38,022	10,262	40,483	31,381	20,207
Institutional support	100,793	69,487	35,473	92,482	14,491	28,431	64,917	57,420	32,754	25,930	125,934
Operation and maintenance of plant	58,238	71,078	28,038	66,615	2,316	23,462	44,978	37,789	28,243	18,753	5,449
Student financial aid	56,470	29,289	30,729	71,020		28,197	36,258	28,053	29,896	6,326	1,650
Medical centers		590,782	278,347	770,134			394,974	791,948			
Auxiliary enterprises	69,506	66,622	58,654	174,421	1	29,635	64,192	15,235	48,873	46,633	(817)
Depreciation	101,165	109,736	66,318	151,914		27,974	121,853	96,496	40,543	27,481	10,562
Other[4]	1,199	(4,644)	4,450	10,259		94	2,421	5,836	8,044	2,081	(4,441)
Total	**$1,348,506**	**$1,787,922**	**$1,067,190**	**$2,905,387**	**$21,136**	**$367,870**	**$1,606,368**	**$1,838,126**	**$520,751**	**$361,275**	**$550,244**
Grant and Contract Revenue											
Federal government	$248,323	$208,005	$143,620	$452,352	$ 350	$52,326	$411,015	$370,683	$ 97,984	$51,210	$ 23,223
State government	71,246	96,644	18,244	54,939		12,195	30,216	36,220	12,996	9,462	96,578
Local government	1,576	6,067	3,308	29,008		2,670	4,099	74,724	1,370	977	4,090
Private	81,593	65,577	40,725	123,147	10,230	12,889	92,886	115,989	21,859	12,029	7,025
Total	**$402,738**	**$376,293**	**$205,897**	**$ 659,446**	**$10,580**	**$80,080**	**$538,216**	**$597,616**	**$134,209**	**$73,678**	**$130,916**
Endowment											
Endowment, at fair value	$1,350,667	$345,562	$38,312	$781,404	$2,361	$29,119	$110,814	$565,605	$39,800	$38,994	$843,192
Endowment, at cost	1,375,651	336,151	39,628	759,666	2,368	26,656	113,171	553,491	34,742	40,228	828,297
Income available for spending	63,165	14,573	1,633	28,470	23	925	3,944	27,302	1,766	1,724	27,447
Capital Assets											
Capital assets, at book value	$1,648,540	$1,599,160	$1,036,309	$2,541,052	$29,711	$481,424	$1,406,424	$1,416,802	$603,831	$483,293	$115,507
Capital expenditures	287,469	241,173	187,354	389,012	1,003	104,010	230,125	252,771	129,518	102,491	60,923

1 As of academic year 2000-01

2 Includes expenses associated with teaching, research and public service. Excludes DOE laboratories

3 Includes expenses for Systemwide education and research programs, Systemwide support services and administration.

4 Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.

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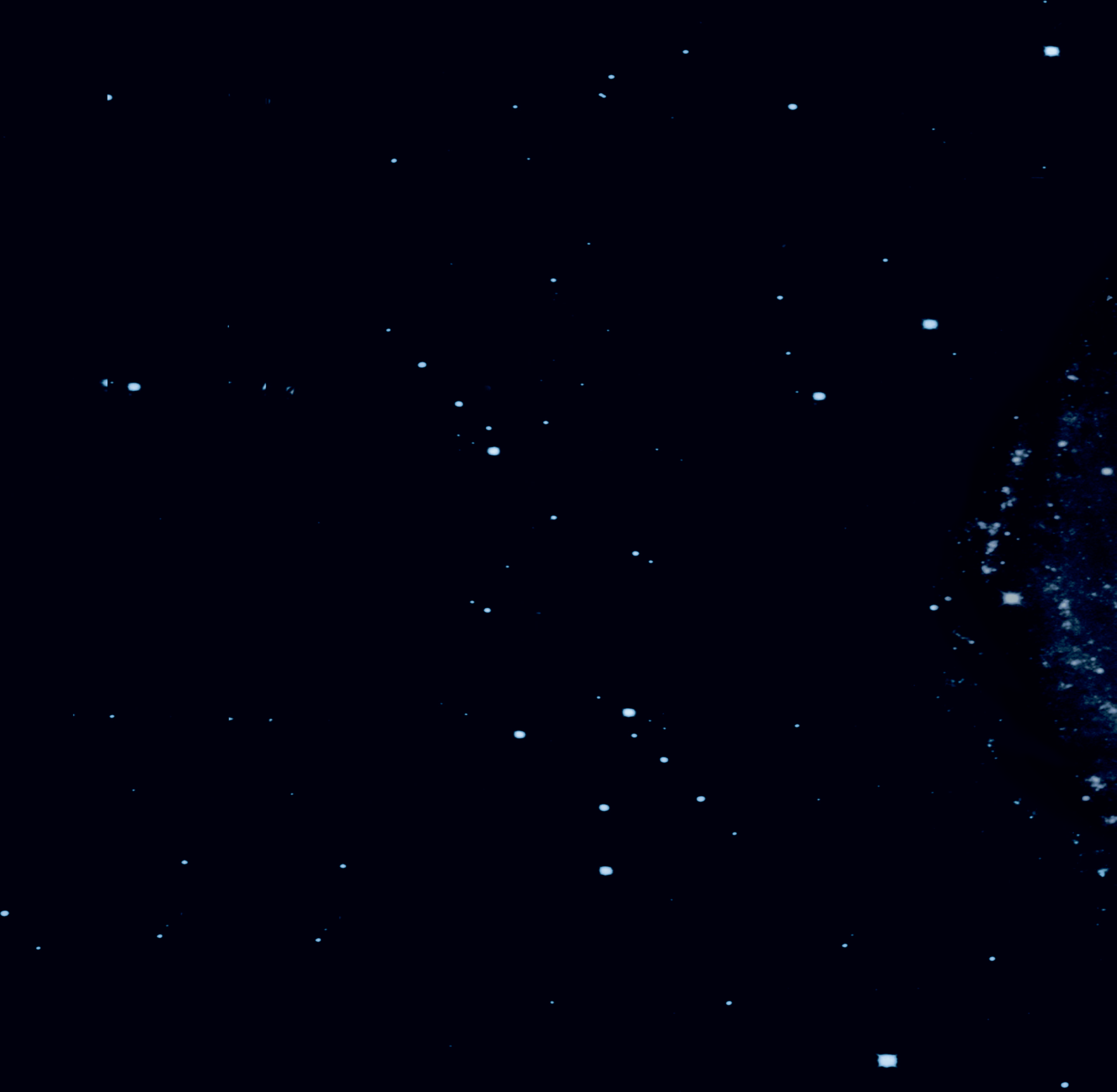

University of California
Financial Management
1111 Franklin Street, 10th Floor
Oakland, CA 94607-5200