Appendix C: Financial Statements and Supplementary Information for Bond Indebtedness

Faculty Housing Assistance Programs
Bond Indebtedness
2000-01

PRICEWATERHOUSECOOPERS

University of California
1987 Faculty Mortgage
Revenue Bond Program

Financial Statements
For the Year Ended June 30, 2001 and
Report of Independent Accountants

PRICEWATERHOUSECOOPERS

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Report of Independent Accountants

To The Regents of the University of California:

In our opinion, the accompanying balance sheet as of June 30, 2001 and the related statement of revenue, expenditures and changes in fund balance present fairly, in all material respects, the financial position of the University of California 1987 Faculty Mortgage Revenue Bond Program (the "Program") at June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University of California's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 28, 2001

University of California
1987 Faculty Mortgage Revenue Bond Program
Balance Sheet
June 30, 2001

Assets	
Cash and cash equivalents	$ 2,510
Accrued interest receivable	21,865
Investments, at contract value	380,899
Mortgage notes receivable	1,868,125
Total assets	$ 2,273,399
Liabilities and fund balance	
Accrued interest payable	$ 41,463
Revenue bonds payable	1,605,000
Total liabilities	1,646,463
Fund balance	626,936
Total liabilities and fund balance	$ 2,273,399

The accompanying notes are an integral part of these financial statements.

University of California
1987 Faculty Mortgage Revenue Bond Program
Statement of Revenue, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2001

Revenue	
Interest income on mortgage notes	$ 154,428
Interest income on investments	25,371
Total revenue	179,799
Expenditures	
Interest expense on revenue bonds	127,423
Service and administration fees paid to The Regents of the University of California	6,865
Fees and expenses	11,102
Total expenditures	145,390
Excess of revenue over expenditures	34,409
Fund balance as of June 30, 2000	592,527
Fund balance as of June 30, 2001	$ 626,936

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

The University of California 1987 Faculty Mortgage Revenue Bond Program (the "Program") began operations in August 1987 with the issuance of the University of California Faculty Mortgage Revenue Bonds, Series 1987. The Program provided low-interest home mortgage loans to designated employees of the University. The fund balance is accumulated pursuant to provisions of the Indenture relating to the University of California Faculty Mortgage Revenue Bonds, Series 1987, dated August 1, 1987.

As per the Indenture, the bonds are limited obligations of The Regents of the University of California, payable solely from revenue collected from mortgage loans and are secured by a pledge and assignment of this revenue.

Basis of accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles and the accounts are maintained in accordance with the principles of fund accounting.

Interest income and expense

Interest income on investments is recorded when earned. Interest income on mortgage notes is accrued on the outstanding balances using the simple interest method. Interest expense on revenue bonds is recorded when incurred using the simple interest method.

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 results could differ from those estimates.

Concentration of credit risk

All of the mortgage loans provided by the Program have been made to faculty of the University of California (the "University") for properties located in California.

2. Cash Equivalents

Cash equivalents consist of money market funds and are held by the University's trustee as agent for the University.

3. Investments

Investments are stated at contract value, consist primarily of nonparticipating investment agreements between the trustee and a bank and an investment company which guarantee interest rates ranging from 7.45% to 7.57% per annum, and are held by the University's trustee as agent for the University.

4. Mortgage Notes Receivable

Mortgage notes receivable bear interest at the rate of 7.95% per annum. Principal and interest payments are due monthly over the remaining term of the notes, each having a final maturity date of August 1, 2017. These notes are collateralized by the liened property.

5. Revenue Bonds Payable

Revenue bonds in the principal amount of $1,605,000 were outstanding at June 30, 2001 and are due and payable on September 1, 2017. These bonds bear interest at 7.75% per annum payable semi-annually on September 1st and March 1st.

Due to the significant amount of mortgage refinancing activity resulting from lower market interest rates on home mortgage loans, the Program has used proceeds from retired mortgage loans to prepay principal on outstanding bonds in excess of the debt service requirements under the Indenture.