

## **Appendix C: Financial Statements and Supplementary Information for Bond Indebtedness**

Faculty Housing Assistance Programs  
Bond Indebtedness  
Fiscal Year 2002-03



**The Regents of the University of California  
1987 Faculty Mortgage  
Revenue Bond Program  
Special Purpose Financial Statements  
For the Year Ended June 30, 2003  
and Report of Independent Auditors**

**Report of Independent Auditors**

To The Regents of the University of California:

In our opinion, the accompanying special purpose statement of net assets as of June 30, 2003 and the related special purpose statement of revenue, expenses, and changes in net assets presents fairly, in all material respects, the financial position of the Regents of the University of California 1987 Faculty Mortgage Revenue Bond Program (the "Program") at June 30, 2003, and its revenue, expenses, and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1, the financial statements of the Program are intended to present the financial position and the income, expenses, and changes in net assets of only that portion of the activities of the University of California that are attributable to the Program. These financial statements do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2003, and the revenues, expenses, and changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University 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.



October 2, 2003

**University of California**  
**1987 Faculty Mortgage Revenue Bond Program**  
**Special Purpose Statement of Net Assets**  
**June 30, 2003**

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<b>Assets</b>	
Cash and cash equivalents	\$ 1,805
Accrued interest receivable	24,890
Investments, at contract value	823,734
Mortgage notes receivable	666,522
Total assets	<u>\$ 1,516,951</u>
<b>Liabilities</b>	
Accrued interest payable	\$ 20,408
Revenue bonds payable	790,000
Total liabilities	<u>810,408</u>
<b>Net assets</b>	
Net assets - restricted	<u>\$ 706,543</u>

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

**University of California**  
**1987 Faculty Mortgage Revenue Bond Program**  
**Special Purpose Statement of Revenue, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2003**

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<b>Revenue</b>	
Interest income on mortgage notes	\$ 86,028
Interest income on investments	<u>32,455</u>
Total revenue	<u>118,483</u>
<b>Expenses</b>	
Interest expense on revenue bonds	63,356
Service and administration fees paid to The Regents of the University of California	4,056
Fees and expenses	<u>7,682</u>
Total expenses	<u>75,094</u>
Excess of revenue over expenses, restricted	43,389
Net assets - restricted as of June 30, 2002	<u>663,154</u>
Net assets - restricted as of June 30, 2003	<u>\$ 706,543</u>

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

**University of California**  
**1987 Faculty Mortgage Revenue Bond Program**  
**Notes to Special Purpose Financial Statements**  
**For the Year Ended June 30, 2003**

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**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 of California (the “University”). The net assets are 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 collateralized by a pledge and assignment of this revenue.

**Basis of Accounting**

These special purpose financial statements of the Program have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), 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. While these special purpose financial statements are presented in accordance with GAAP, they omit a statement of cash flows and other disclosures and, as such, are not intended to constitute a complete presentation of the financial position, changes in net assets and cash flows of the Program.

**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.

Certain expenses are based upon allocations of costs from the University which it deems to be reasonable. Such allocations might have been different if the parties were unrelated.

**Use of Estimates**

The preparation of special purpose financial statements in conformity with GAAP 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 special purpose 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 for properties located in California.

**2. Cash and Cash Equivalents**

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

**University of California**  
**1987 Faculty Mortgage Revenue Bond Program**  
**Notes to Special Purpose Financial Statements**  
**For the Year Ended June 30, 2003**

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**3. Investments**

Investments consist primarily of nonparticipating guaranteed investment contracts between US Bank (the "Trustee"), 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. Such contracts are valued at amortized cost, and income is accrued daily.

**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 lien property. In the event of a default, the University would pursue foreclosure proceedings and apply the proceeds of the sale from the lien property towards the outstanding loan.

**5. Revenue Bonds Outstanding**

Revenue bonds in the principal amount of \$790,000 were outstanding at June 30, 2003. These bonds bear interest at 7.75% per annum payable semi-annually on September 1<sup>st</sup> and March 1<sup>st</sup>.

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.

**6. Subsequent Events**

The bonds were redeemed on September 1, 2003.