

UNIVERSITY OF SOUTHERN CALIFORNIA

FINANCIAL REPORT

2019



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I am confident our journey of exploration will take us to amazing places.

Our mission to discover, educate and innovate impacts lives all over the world, but it starts with a solid fiscal foundation that supports stability and growth. The following pages speak to the strong foundation at USC—grounded in a university-wide commitment to excellence and in the terrific dedication of our faculty and staff.

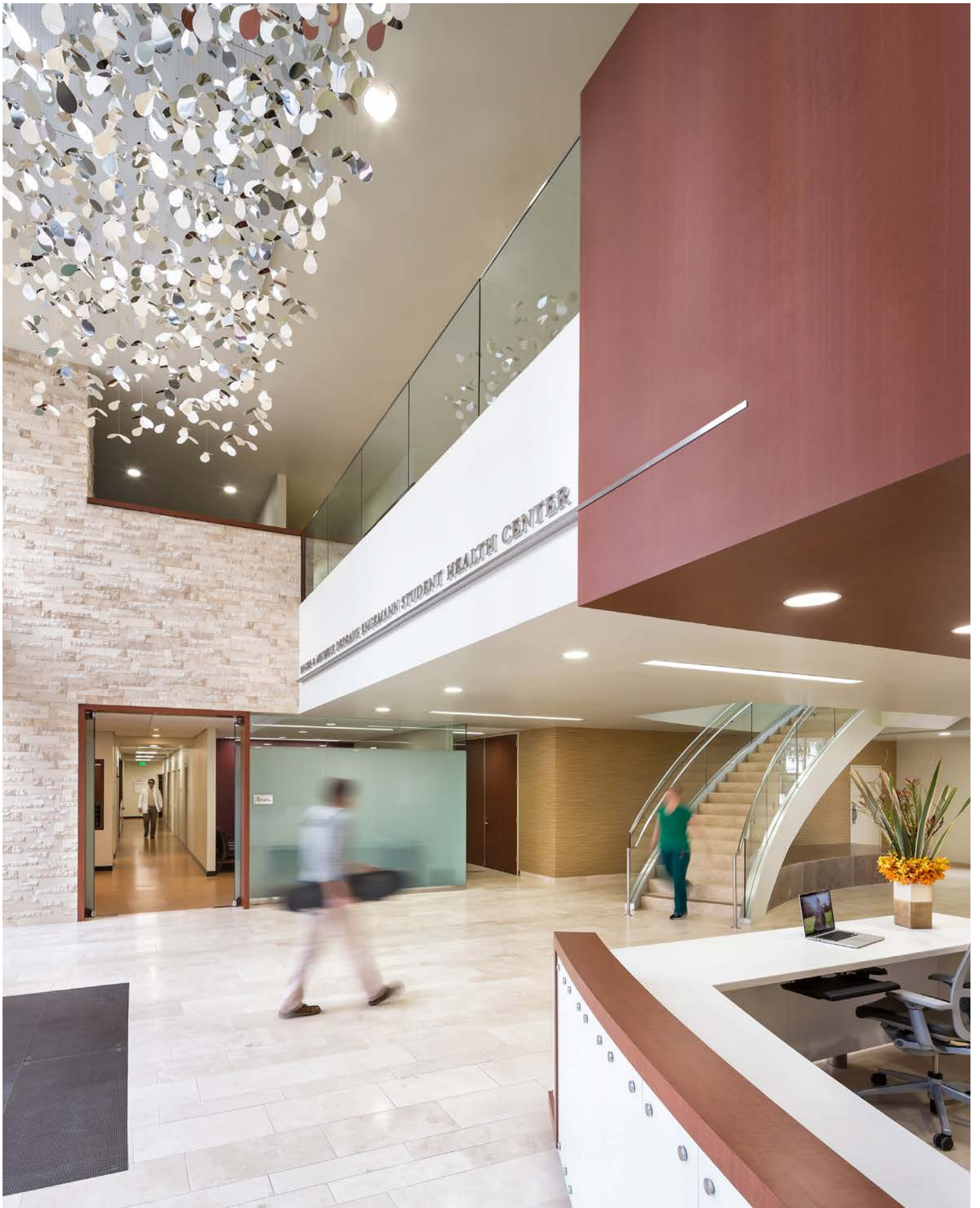
This report gives a comprehensive picture of our university’s financial health. The numbers also tell a meaningful story about our community and its purpose: to educate and nurture students, to pursue cutting-edge research, to advance quality health care and to change the world for the better. When we work together in these areas, we strengthen our ability to support learning, collaboration and innovation.

As USC starts its next chapter, we have the chance to embrace new ideas and renew our sense of purpose. Access and affordability will remain a top priority as our community becomes even more diverse and inclusive. We have exceptional resources for scholarships and financial aid, and we must continue to ensure that our students can access these opportunities. Sustainable education will be another area to combine our social responsibility with fiscal responsibility. In all of these efforts, we can set an example of sound and strategic financial leadership.

I am confident our journey of exploration will take us to amazing places. The possibilities are boundless, and I look forward to our future ahead.

A handwritten signature in black ink that reads "Carol L. Folt". The signature is written in a cursive, flowing style.

Carol L. Folt
President





Students are the heartbeat of a university.

USC's heartbeat throbs with talented scholars from across the world who are passionate about exploring new perspectives, cultures and experiences and challenging themselves and their peers. They are ambitious, curious and collaborative. They are also diverse: In the 2019 class of incoming students, 27% are from traditionally underrepresented backgrounds, 15% are in the first generation of their family to attend college and 15% are international students.

To ensure its inquisitive, determined and energetic students thrive as Trojans and have an equal opportunity to grow to their fullest potential, USC offers more resources than ever before.

First-generation students can access specialized academic support and career mentorship programs. A new course offers valuable lessons on thriving and leading a fulfilling and balanced life. First-year students starting in the spring semester can contact spring admit ambassadors who came before them to ease any worries and get advice on finding their place in the Trojan Family. Support for veterans and their families continues to grow, including a new certificate program at the USC Marshall School of Business and dedicated housing for student veterans. These and many other programs are aimed at giving USC students the tools and support they need to achieve their dreams.

BY THE NUMBERS

*USC Leslie and William
McMorrow Neighborhood
Academic Initiative*

1,000+
students have
completed
the 7-year college
prep program

83%
became first-
generation college
students at four-year
universities.

USC's application process is blind to need, ensuring that a student's financial status will never influence an admission decision. Through one of the most generous financial aid programs in the country, the university provides more than \$350 million in scholarships and aid, not counting federal, state and other sources. Nearly two thirds of undergraduate students at USC receive financial aid, including nearly a quarter who receive a merit-based scholarship.

The university also enrolls more than 4,300 low-income undergraduate students, as defined by Pell Grant eligibility, outpacing most other private research universities. Importantly, low-income and underrepresented minority students graduate from USC at rates comparable to the overall undergraduate population.

The USC Leslie and William McMorrow Neighborhood Academic Initiative, one of the university's hallmark community engagement programs, continues producing top scholars who advance to college, including 19 from the 2019 class who are attending USC. More than 1,000 students have completed the rigorous 7-year college prep program; 42% enrolled as Trojans and 83% became first-generation college students at four-year universities. It's one of dozens of community outreach programs near the University Park and Health Sciences campuses designed to strengthen ties with neighborhood partners and build a pipeline to academic and career success for local children.



USC's financial position remains strong as we continue to make important investments to enhance the student experience.

The University of Southern California's financial performance for the year ending June 30, 2019, was solid, with revenues increasing to \$5.2 billion, a 5.9% growth compared to the previous year. Cash and investments grew by approximately 5.0% or \$343.3 million to \$7.4 billion in fiscal year 2019.

The endowment continued to grow with a 3.5% increase, bringing the market value as of June 30, 2019, to \$5.7 billion. The university ended fiscal year 2019 with \$9.2 billion in net assets, which represents a 19% increase in net assets since 2015. These long-term results are a reflection of many efforts including a successful fundraising campaign, endowment results and the health care enterprise. This growth provides the university the opportunity to develop innovative solutions to access and affordability and sustainability and to continue its efforts in creative, entrepreneurial and technological arenas.

USC Campaign

In fiscal year 2019, USC concluded its most successful fundraising campaign. Whenever we hear the call to connect to something larger than ourselves, to contribute to a cause we could never accomplish on our own, we respond, the entire Trojan family. The power of our philanthropy changes so many lives: students, faculty members, patients and the community. Not just for today, but for years to come. Thanks to more than 400,000 donors, the funding received to date has created support for more than \$978 million in research, \$635 million for new student scholarships, 110 endowed chairs and professorships, 25 centers and institutes and more than \$2.2 billion for academic programs, just to name a few. We continue to be inspired by the generous support of our donors.

Exceptional Value

USC has a long tradition of recruiting exceptional students from diverse socioeconomic backgrounds, regardless of financial need, and the university met the full demonstrated need of every admitted undergraduate student in 2019 (who met the deadline and eligibility requirements). The university's strong commitment to providing access and opportunity to all qualified students is demonstrated through this generous financial aid program. Nearly two thirds of USC undergraduate students receive some form of financial aid, including merit scholarships, need-based grants, federal work-study and student loans. USC's average net price—the cost that a USC student actually pays—is significantly lower than the published rate of tuition. For 2019, the total amount of financial aid provided to all students from university resources was more than \$603 million.

The value that a USC education provides is unlike any other American institution of higher education: world-class resources on a human scale; more academic opportunities than any other American university; a vibrant campus life located in the heart of a dynamic world center; and the lifelong support of the Trojan Family.

Health Care Enterprise

A highlight for the health care enterprise for 2019 was the number 16 ranking for Keck Medical Center of USC, which includes Keck Hospital of USC and USC Norris Cancer Hospital, by the U.S. News and World Report 2019-20 Best Hospitals Honor Roll.

The health care enterprise plays a central role in the life of the university. With more than 500,000 patient encounters, health care services revenue exceeded budget and grew by 9.5% to \$1.9 billion in fiscal year 2019. Earnings before interest, depreciation and amortization were \$174 million and bottom-line operating results were \$100 million. The overall positive performance of the health care enterprise is a result of continued clinical growth and disciplined cost-management efforts.

Message from the Senior Vice President for Finance and Chief Financial Officer

Research

Research of the highest quality by university faculty members and students is fundamental to the university's mission. Total annual research expenditure of the university of \$571 million (including indirect cost recoveries) is at an all-time high. Current sponsored awards and executed grants for contracts for future periods are at an all-time high of \$2.2 billion. USC faculty members are winning research grants even as research funding grows more competitive, particularly among federal government agencies.

Capital Spending Highlights

Fiscal year 2019 included \$448 million in capital spending. The largest capital investments made in the current year were for the completion of Iovine and Young Hall and the renovation and restoration of Los Angeles Memorial Coliseum. Iovine and Young Hall houses the innovative programs of the university's newest school. The investment in the historic Los Angeles Memorial Coliseum prepares the stadium for the next century while still honoring veterans.

Technology

USC continued to make major strategic investments in information technology services in fiscal year 2019, including continuing a multiyear transformational program to enhance USC's cybersecurity and network capabilities to meet the institution's ever-evolving needs as a world-class research university. USC embarked on this digital transformation to reimagine how technology can transform the campus experience in changing the way we work and deliver value to our customers. Also part of this transformation, the university began a project to implement a new enterprise-wide financial system.

Operating Results and Settlement

For the year ending June 30, 2019, USC generated an operating deficit of \$396 million. Operating expenses for the year ending June 30, 2019, include an accrual related to a portfolio of civil litigation matters that reflects the complexity of the higher education environment and the diversity of issues facing universities today. In fiscal years 2018 and 2019, the university was named in multiple civil lawsuits in state and federal court arising out of alleged misconduct by a physician formerly employed by the university at its student health center. On October 9, 2018, the university entered into a settlement agreement with the federal class-action plaintiffs, providing for a \$215 million settlement by the university to the plaintiffs, plus attorney fees in an amount not to exceed \$25 million. In June 2019, the federal court granted preliminary approval of the settlement agreement. The university expects to receive final court approval of the settlement and to make payments in connection with the settlement during calendar year 2020. The university has recorded a liability on its balance sheet for the fiscal years ended June 30, 2019, and June 30, 2018, of \$215 million for the federal class-action settlement.

During the last several years, the university has experienced tremendous growth and continues to make important investments in infrastructure and strategic priorities for our students, including accessibility and affordability, student health services, wellness initiatives and sustainability.

Looking Forward

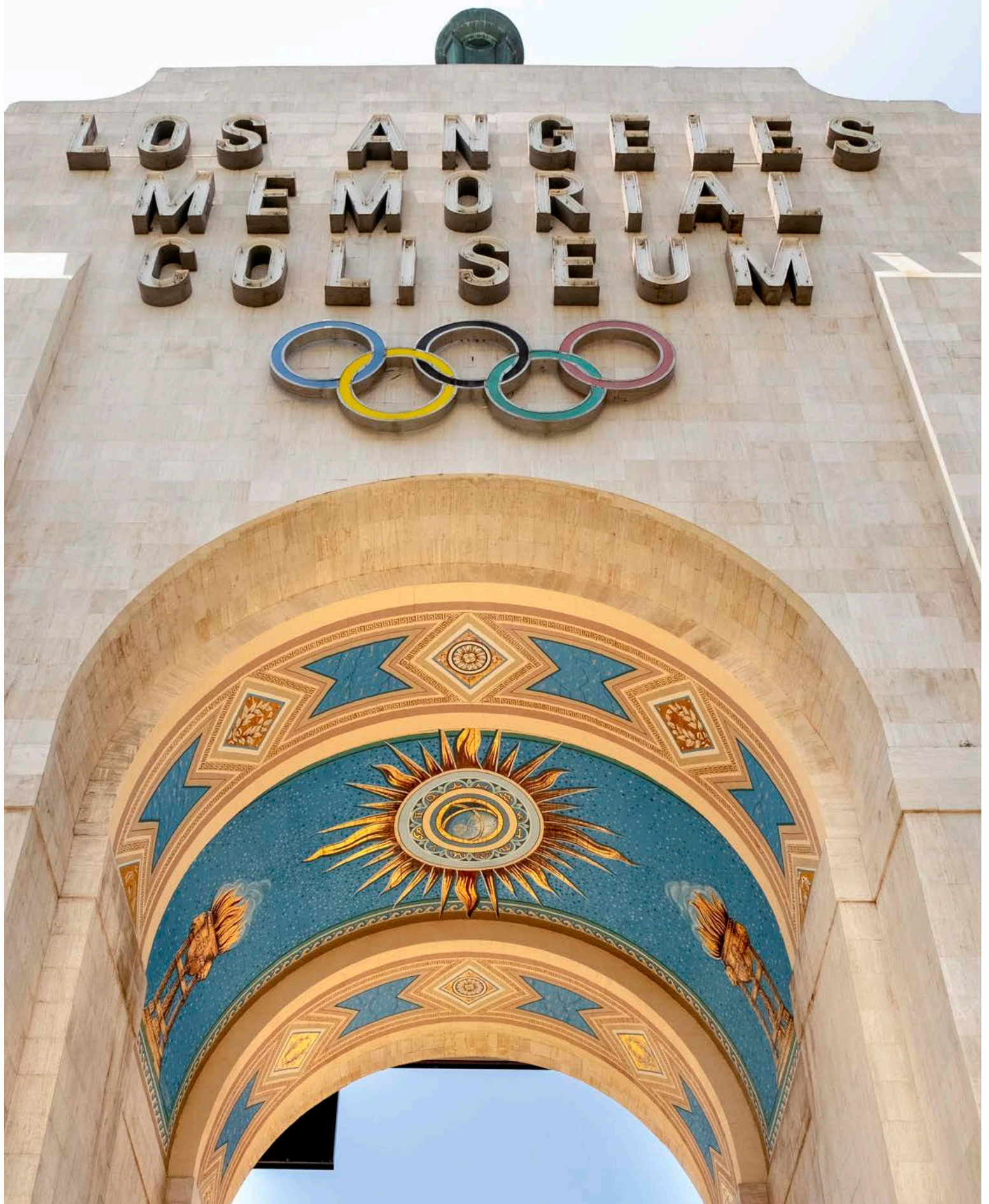
Looking forward to the next decade, USC's financial position remains strong as we continue to make important investments to enhance the student experience and build on our strengths as a high-impact global research university.

USC is currently focusing on its values to allow a deeper understanding of the culture required to support our mission: to serve students, patients and communities through excellence in teaching, research, artistic creation, professional practice, outstanding medical care and public service.

Fight On!

James Staten

*Senior Vice President, Finance
and Chief Financial Officer*





Fiscal Year 2019 Results

Revenue

As shown in the chart below, the university derives its revenue from seven main sources: net student tuition and fees, health care services, contracts and grants, contributions, auxiliary enterprises, sales and services and allocation of endowment spending.

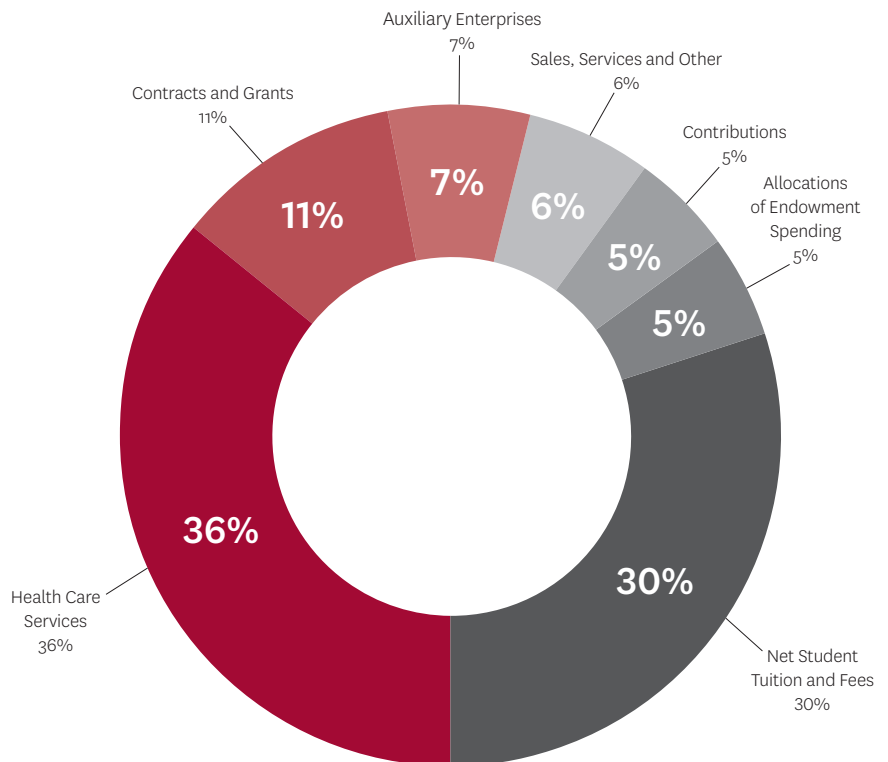
Net Student Tuition and Fees

Net tuition, room and board increased 5.9% from \$1,487 million in 2018 to \$1,575 million in 2019. In accordance with generally accepted accounting principles, student tuition and fees are presented net of financial aid, which totaled \$603 million and \$556 million for 2019 and 2018, respectively. Net student tuition and fees represented 30.1% of the university's operating revenues in both 2019 and 2018.

During the 2019 academic year, 47,500 students were enrolled at the university; 20,000 were undergraduate students and 27,500 were pursuing graduate studies.

USC Operating Revenue

As of June 30, 2019



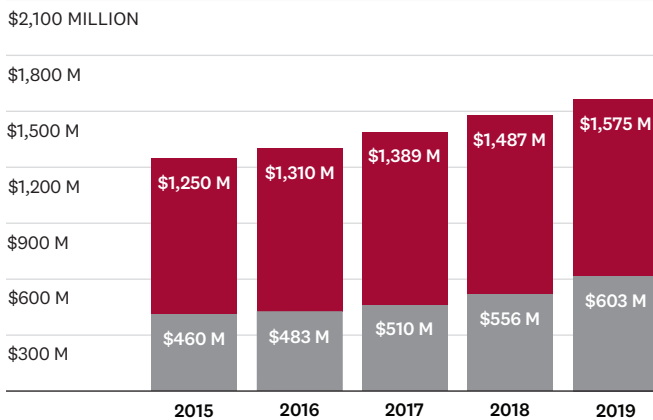
The total annual cost of attendance for 2018-2019 undergraduate students enrolled at USC was \$74,825, which represents a 3.5% increase from the 2017-2018 annual undergraduate total cost of attendance of \$72,273.

The university maintains a policy of offering USC admission to qualified applicants without regard to family financial circumstances. This “need-blind” admission policy is supported with a commitment to meet in full the demonstrated financial need of all students throughout their undergraduate years.

Approximately 23% of the 2019 and 2018 entering first-year class received a merit-based scholarship from USC, and more than 60% received some form of financial assistance.

USC Financial Aid

- Student Financial Aid
- Student Tuition and Fees, Net



Health Care Services Revenue

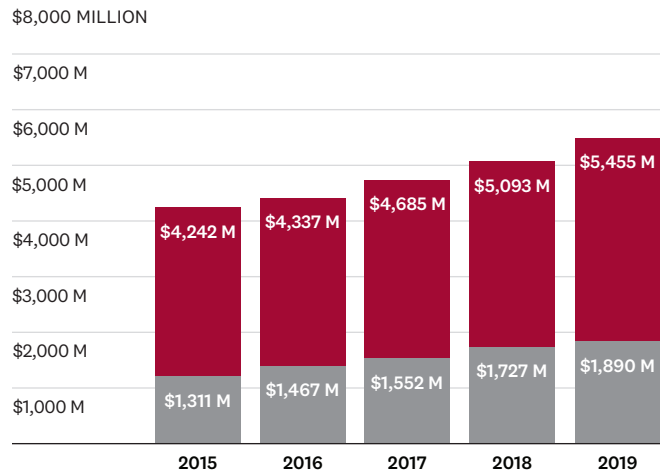
Health care services revenue totaled \$1,890 million in fiscal year 2019, an increase of 9.5% from \$1,727 million in 2018. Health care services revenue represents the largest revenue stream for the university at 36.2% of total operating revenue. The largest portion of this revenue stream, \$1,746 million, is derived from medical services provided by the combined operations of Keck Hospital of USC, USC Norris Cancer Hospital and USC Verdugo Hills Hospital. The hospitals are among the nation’s leading medical centers, providing medical and health care services to inpatients and outpatients throughout Southern California. Keck Medical Center of USC includes the 401-licensed-bed Keck Hospital of USC, the 60-licensed-bed USC Norris Cancer Hospital and the 158-licensed-bed USC Verdugo Hills Hospital. It also includes more than 40 outpatient facilities, some at affiliated hospitals, in Los Angeles, Orange, Kern, Tulare and Ventura counties. The

medical faculty physician group, USC Care Medical Group, practices at these facilities, Children’s Hospital Los Angeles and Los Angeles County+USC Medical Center.

As noted in the graph below, the USC health care enterprise has experienced steady revenue growth for the last five years, with noted increases in fiscal years 2018 and 2019. Several improvements were made during the course of the year, including a shorter turn around for days in accounts receivable and improved cash collections. The hospitals have experienced increasing patient transfers and growing patient volumes.

USC Health Care Services Revenue

- Health Care Revenue
- Total Revenue



Contract and Grants Revenue

USC is one of a small number of premier research institutions on which the nation depends for a steady stream of new knowledge, innovations and discovery. USC is ranked second in the nation among all universities in the size of its federally funded computer science research program and has the largest graduate program in science, engineering and health of all research universities.

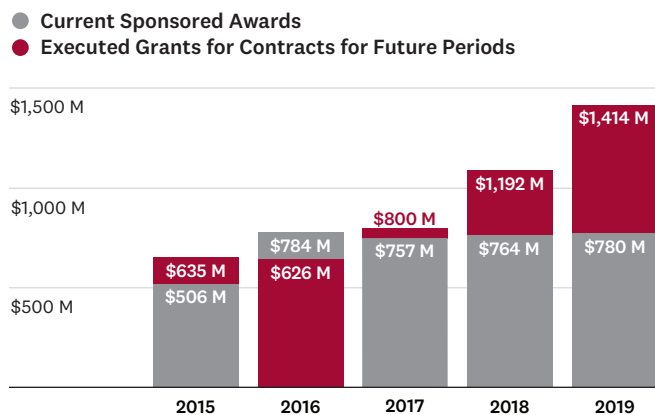
Total annual research expenditure of the university of \$571 million (including indirect cost recoveries) is at an all-time high. The contracts and grants graphic displays current sponsored awards and executed grants for contracts for future periods as presented in footnote 15 of the 2019 audited financial statements. Total contracts and grants have been steadily increasing since 2015, with a notable 2019 increase in executed grants and contracts for future periods due in part to consistent growth in the number of sponsored research proposals awarded to USC researchers.

Fiscal Year 2019 Results

In addition to the reimbursement of direct costs charged to sponsored awards, sponsoring agencies reimburse the university for a portion of its facilities and administrative costs (referred to as indirect costs), which include costs related to research laboratory space, facilities and utilities, and administrative and support costs incurred for sponsored activities. These reimbursements for facility and administrative costs amounted to \$170 million in 2019 and \$160 million in 2018, an increase of 6.3%. Recovery of facility and administrative costs associated with federally sponsored awards is recorded at rates negotiated with the university's cognizant agency, the Department of Health and Human Services.

Executed contracts, grants, subcontracts and cooperative agreements for future sponsored research activity, which are not reflected in the consolidated financial statements as of June 30, 2019 total \$2.194 million, an increase of 12.1% from 2018's total of \$1.957 million.

USC Contract and Grant Awards



Contribution Revenue

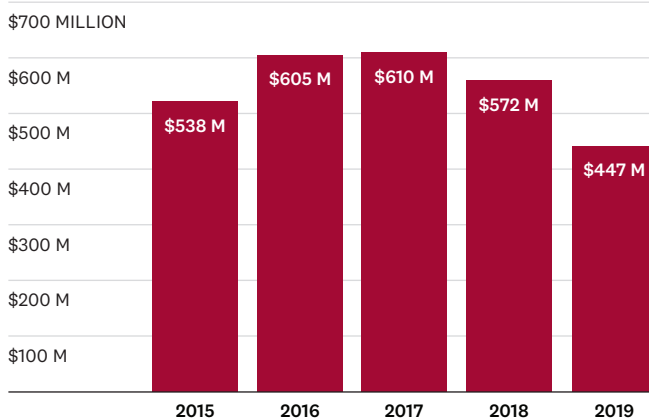
Contributions to the university provide necessary funding for current academic priorities, investment in the university's physical infrastructure and student support and permanent resources in the form of endowment to support future generations of Trojans.

In aggregate, contributions included in the university's consolidated financial statements totaled \$447 million in 2019, a decrease of 21.8% compared to 2018 contribution revenue of \$572 million. On December 31, 2018, USC concluded its most recent fundraising campaign, having raised \$7.16 billion for priorities across the university. The campaign finished more than \$1 billion over its original goal of \$6 billion and was the second-largest campaign in the history of higher education at the time of its conclusion. During the campaign, the university received gifts from 400,145 separate

donors. Notably, 758 donors made gifts to the campaign of \$1 million or more and 18 contributed \$50 million or more.

As expected, fundraising performance has tapered off slightly since the conclusion of the campaign. Notably, due to the strength of the advancement infrastructure and staff as well as the prospect pool donor cultivation, fundraising performance is expected to continue to remain strong and is projected to remain at more than double precampaign levels.

USC Contribution Revenue



Certain gifts commonly reported in fundraising results are not recognized as contributions in the university's consolidated financial statements. Examples of gifts that are not included are "in-kind" gifts of property (works of art) and certain portions of pledges whose full conditions have not yet been met (new buildings or improvements to existing buildings).

Conditional pledges for the university, which depend on the occurrence of specified future and uncertain events, were \$317 million and \$346 million as of June 30, 2019 and 2018, respectively.

Auxiliary Enterprises Revenue

Auxiliary enterprises revenue totaled \$373 million in fiscal year 2019, a decrease of 0.9% from 2018 revenue of \$376 million, and represented 7.1% of the university's 2019 operating revenue. Auxiliary enterprises revenue includes revenue associated with the USC Village and USC Athletics, including the Los Angeles Memorial Coliseum. Auxiliary revenue also includes revenue from the various service lines such as housing, hospitality, bookstores and the USC Hotel.

Sales, Services and Other Revenue

Sales and services revenue totaled \$158 million in fiscal year 2019, a decrease of 3.2% from 2018 revenue of \$163 million, and represented 3.0% of the university’s 2019 operating revenue. Some major components of the sales and services category include revenue from USC Pharmacies and student clinics, and the Norris Dental Science Center clinics and Oral Health Center.

Other operating revenue totaled \$140 million in fiscal year 2019, an increase of 1.0% from 2018 revenue of \$138 million, and represented 2.7% of the university’s 2019 operating revenue. The other revenue category includes revenue from USC Ticket Office sales, USC Radio Group and the USC Marshall School of Business research centers.

Allocation of Endowment Spending

Each year, a portion of accumulated endowment investment returns is allocated to support operational activity. This important source of revenue totaled \$246 million in fiscal year 2019, an increase of 3.7% from 2018 revenue of \$237 million, and represented 4.7% of the university’s 2019 operating revenue.

The level of spending is computed in accordance with an endowment spending policy that has the effect of smoothing year-to-year market swings. Additional information on the endowment spending policy is provided in the endowment section of the 2019 results.

Expenses

Expenses totaled \$5,622 million for 2019, representing a 11.5% increase from the 2018 operating expenses of \$5,044 million. As noted in the “USC Expenses by Natural Classification” graphic, salaries and benefits are the largest component of operating expenses, at approximately 56% of total expenses.

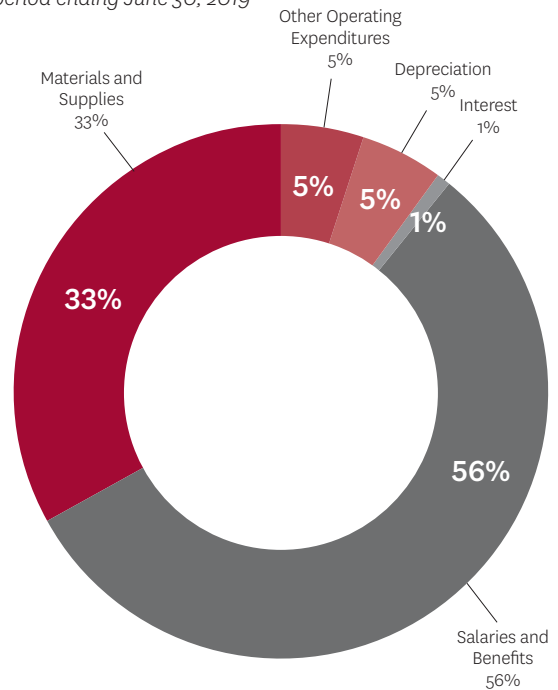
During fiscal years ended June 30, 2018 and 2019, the university was named in civil lawsuits in state and federal court in connection with alleged misconduct by a physician who was previously employed by the university and practiced at the university student health center. On October 9, 2018, the university and the federal plaintiffs reached an agreement in principle for a federal class-action settlement of \$215 million, which has been recorded as a liability as of June 30, 2018. As of June 30, 2019, there have been no payments made in connection with the federal class-action settlement.

There have been significant developments in related matters that could impact the civil litigation. We have assessed the risk of loss related to the alleged misconduct together with other litigation and

for those matters deemed estimable and probable, have accrued expenses included in operating expenses in the consolidated statement of activities.

USC Expenses by Natural Classification

For period ending June 30, 2019



During the 2019 fiscal year, USC employed more than 6,430 faculty members, 15,717 staff members (including hospital and academic staff members) and 7,484 student workers as full-time equivalents. During the 2018 fiscal year, USC employed more than 6,222 faculty members, 15,235 staff members (including hospital and academic staff members) and 7,833 student workers as full-time equivalents.

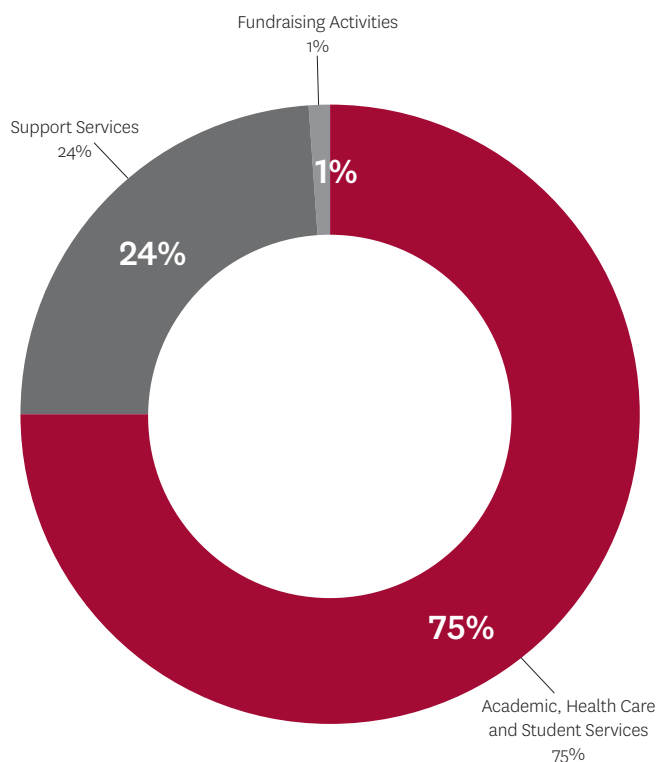
Compensation costs of salaries and benefits were \$3,114 million in 2019, a 10.9% increase compared to compensation costs in 2018 of \$2,808 million.

These costs include salary, pension, postretirement health and insurance plan costs in addition to Social Security and other statutory benefits. With respect to consolidated expenses, operating expenses increased 27.7%, depreciation increased 7.5% and interest expense decreased 2.1% compared to 2018.

Fiscal Year 2019 Results

USC Expenses by Functional Classification

For period ending June 30, 2019



In accordance with generally accepted accounting principles, USC reports its expenses by functional classification in the consolidated statement of activities. When reviewing the university expenses by functional classification as noted in the “USC Expenses by Functional Classification” graphic, the university spends 75% of its resources on academic, health care and student services. Academic and student services represents 34%, health care services represents 33% and sponsored research represents 8% of spending. Health care activities and sponsored research are integral to the academic and learning experiences at USC.

Physical Capital

Capital spending on facilities in fiscal year 2019 totaled \$448 million, which represents an increase in spending of 6.4% compared to 2018 capital spending of \$421 million. Investments in physical capital were made in the Los Angeles Memorial Coliseum, Iovine and Young Hall and significant improvements in campus infrastructure.

The largest share of the university’s capital spending was used to complete the renovation of the Coliseum, the historic 96-year-old home of the USC Trojans. The extensive renovations to the Coliseum have prepared the historic venue for its next 100 years.

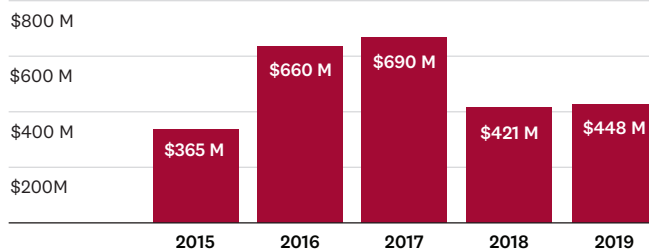
USC also completed the new Iovine and Young Hall, home to the USC Jimmy Iovine and Andre Young Academy for Arts, Technology, and the Business of Innovation. On July 1, 2018, the Academy became USC’s newest school. Students work and learn in a facility that houses approximately 10,000 square feet of maker spaces that include fabrication labs, 3D printing and scanning facilities, and media labs for photo, video and audio capture and editing.

The workshops and flexible studios emphasize collaboration, engender innovation and lead to the development of startups. The university’s ambitious renovation and building plans were funded by a combination of gifts, debt and funds from the operating budget. An important funding component of the university’s capital program is external debt through the capital markets.

During fiscal year 2020, USC issued public bonds, which is a critical funding source to maintain low costs of capital. This allows the university to maximize the use of its resources in the fulfillment of its mission of teaching and research. The university’s outstanding debt and notes payable is approximately \$1,626 million, excluding capital leases. Both Moody’s and Standard and Poor’s have assigned USC strong credit ratings of “Aa1” and “AA,” respectively. One key credit strength noted by Moody’s is the close integration of the university’s operations and health care system.

Refer to the graphic below for capital spending by year, dating back to fiscal year 2015.

USC Capital Spending by Fiscal Year



Endowment

The endowment provides an important source of support for the academic programs of the university. To balance current and future needs, USC employs investment and spending policies designed to preserve endowment asset values while providing a substantial flow of income. As of June 30, 2019, net assets in the endowment totaled approximately \$5,740 million, an increase of approximately \$196 million or 3.5% from the June 30, 2018, endowment balance of \$5,544 million.

Investment Performance

For the fiscal year ending June 30, 2019, the endowment returned 4.7%. The venture capital and global equity programs had the largest contributions to the return. During the last 10 years, the endowment earned 9.2% on an annualized basis, which compares favorably to a benchmark of 60% global stocks and 40% global bonds, which generated a 8.0% annualized return.

Endowment Spending

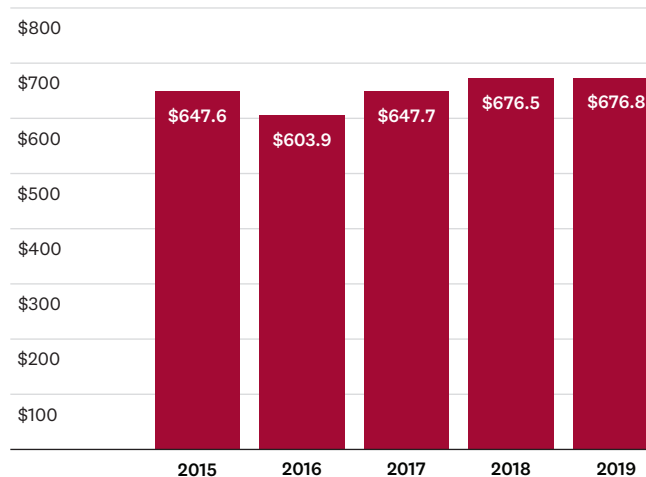
The endowment spending policy, which allocates endowment earnings to operations, balances the competing objectives of providing a stable flow of income and protecting the real value of the endowment over time. The spending policy manages the trade-off between these two objectives by using a long-term target spending rate combined with a smoothing rule, which adjusts spending in any given year gradually in response to changes in endowment market value. The spending rule determines the endowment income and realized gains to be distributed for current spending with the provision that any amounts remaining after the distribution be transferred and reinvested in the endowment pool as funds functioning as endowment.

For the 2019 fiscal year, the Board of Trustees approved current distribution of 102% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters.

Under the provisions of the spending rule, \$29.45 was distributed to each time-weighted unit for a total spending rule allocation of \$246.6 million. Investment income amounting to \$7.14 per time-weighted unit was earned, totaling \$59.8 million, and \$186.8 million was appropriated for current operations from cumulative gains of pooled investments.

Endowment pool earnings allocated for spending in fiscal year 2019 represent 4.5% of the market value of the endowment pool as of June 30, 2019.

USC Endowment Pool Market Value per Share



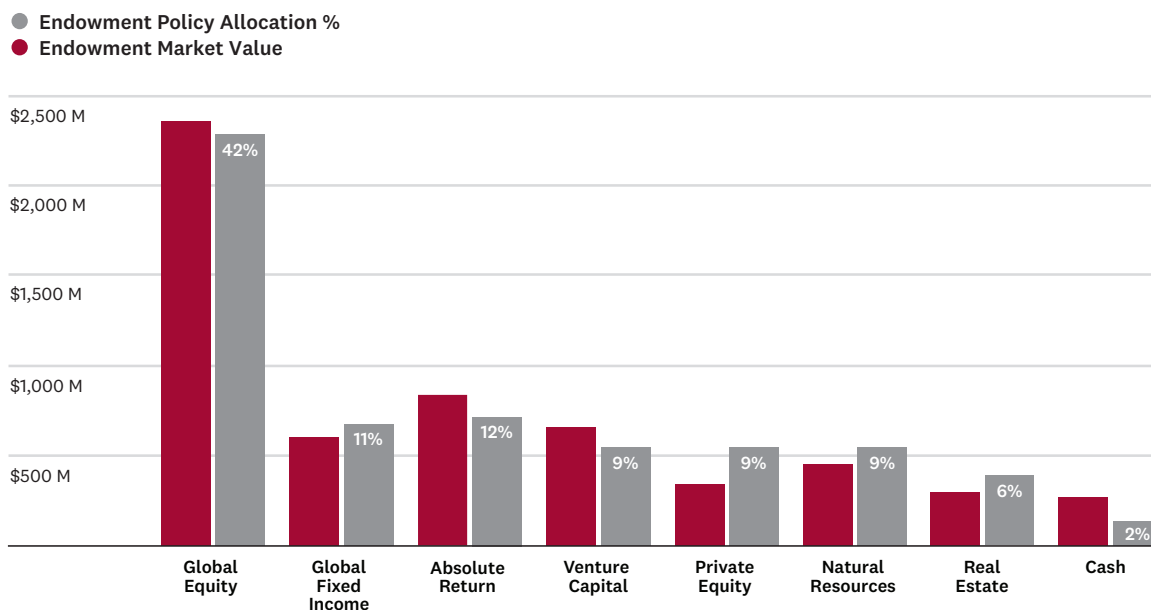
Asset Allocation

The endowment has a long-term investment horizon and employs investment strategies that provide varying degrees of liquidity. The USC asset allocation graph (next page) displays the endowment's asset allocation and the respective policy weights as of June 30, 2019. USC's investments in global equity, venture capital and private equity are considered growth assets and are instrumental in driving the endowment's long-term returns. Investments in global fixed income are included to provide diversification and liquidity, whereas absolute return is intended to dampen volatility during turbulent markets. Natural resources and real estate provide exposure to long-term growth opportunities while maintaining some inflation sensitivity. Cash is used to meet operational needs.

Fiscal Year 2019 Results

USC Endowment Pool

Actual Market Value and Policy Allocation % as of June 30, 2019



USC's global equity program includes investments in U.S. and non-U.S. developed and emerging market equities. The program performed well during this past fiscal year. The U.S. equity market returns contributed significantly to these results. The program has returned 10.4% annualized over 10 years.

The endowment's global fixed-income program remains focused on corporate, high-yield and emerging market bonds. The program contributed positively to the endowment's fiscal year return. For the last 10 years, fixed income has generated a 6.8% return annually.

USC's absolute return program is expected to generate uncorrelated excess returns. The program has succeeded in generating a positive 6.0% annual return over 10 years while providing diversification to other investment programs.

The venture capital program includes illiquid investments in newly formed companies, primarily in the technology sector. Venture capital contributed significantly to the endowment fiscal year return. Venture capital remains the endowment's best-performing asset class, generating 18.8% annually over 10 years.

The private equity program consists of illiquid buyout and distressed debt investments. These types of investments generally have seven- to 10-year investment horizons. The program's 10-year return is 13.2% annually.

USC's natural resources program includes investments in energy, power and timber. Energy price volatility has contributed to the program's mixed short-term results, but the program remains a positive contributor to the endowment's long-term performance. In the 10 years ending June 30, 2019, the program returned 4.1% annualized.

The real estate program focuses more on capital appreciation strategies rather than income-generating properties. Consistent with the other private market investments, long-term results are more indicative of the program's success. Real estate generated a 7.8% annualized return over 10 years.

Endowment Summary

The endowment exists to support the academic mission of the university for current and future generations of Trojans. Because the endowment is expected to operate in perpetuity, the investment decisions will be long-term oriented.

USC continues to focus on return generation and diversification. These principles continue to guide USC's investment strategy, because an equity orientation makes sense for investors with long-term horizons. The endowment's equity orientation and well-diversified portfolio should position the endowment for long-term investment success.





Report of Independent Auditors

To the Board of Trustees of the University of Southern California

We have audited the accompanying consolidated financial statements of the University of Southern California and its subsidiaries (collectively the “University”), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of activities and of cash flows for the years then ended.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Southern California and its subsidiaries as of June 30, 2019 and 2018, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", is written over a faint, larger version of the same text.

December 16, 2019

PricewaterhouseCoopers LLP

Los Angeles, CA

Consolidated Balance Sheets

in thousands

	June 30, 2019	June 30, 2018
Assets		
1 Cash and cash equivalents	\$1,042,239	\$818,978
2 Accounts receivable, net	471,711	461,051
3 Notes receivable, net	61,066	68,585
4 Pledges receivable, net	462,329	570,186
5 Investments	6,351,236	6,231,311
6 Inventories, prepaid expenses and other assets	386,941	278,831
7 Property, plant and equipment, net	4,363,842	4,174,090
8 Total Assets	\$13,139,364	\$12,603,032
Liabilities		
9 Accounts payable	\$285,359	\$273,631
10 Accrued liabilities	1,373,097	751,430
11 Refundable advances	21,477	15,974
12 Deposits and deferred revenue	257,066	261,894
13 Actuarial liability for annuities payable	104,442	108,842
14 Federal student loan funds	67,936	64,319
15 Asset retirement obligations	132,918	126,865
16 Capital lease obligations	75,869	74,222
17 Bonds and notes payable	1,626,346	1,652,388
18 Other liabilities	6,692	4,936
19 Total Liabilities	3,951,202	3,333,501
Net Assets		
20 Without donor restrictions	4,279,003	4,331,141
21 With donor restrictions	4,909,159	4,938,390
22 Total Net Assets	9,188,162	9,269,531
23 Total Liabilities and Net Assets	\$13,139,364	\$12,603,032

The accompanying notes are an integral part of these statements.

Consolidated Statements of Activities

in thousands

Year Ended
June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Operating			
Revenues:			
1 Net Student tuition and fees	\$1,575,446		\$1,575,446
2 Health care services	1,890,318		1,890,318
3 Contracts and grants	571,059		571,059
4 Auxiliary enterprises	372,584		372,584
5 Sales and services	157,850		157,850
6 Contributions	273,875		273,875
7 Other	139,619		139,619
8 Allocation of endowment spending	245,579		245,579
9 Total Revenues	5,226,330		5,226,330
10 Net assets released from restrictions	228,859	(\$228,859)	
11 Total Revenues and Reclassifications	5,455,189	(228,859)	5,226,330
Expenses:			
12 Salaries and benefits	3,114,194		3,114,194
13 Operating expenses	2,162,650		2,162,650
14 Depreciation	281,159		281,159
15 Interest on indebtedness	64,324		64,324
16 Total Expenses	5,622,327		5,622,327
17 Decrease in Net Assets from Operating Activities	(167,138)	(228,859)	(395,997)
Non-operating			
18 Allocation of endowment spending to operations	(112,895)	(132,684)	(245,579)
19 Changes in funding status of defined benefit plan	13,165		13,165
20 Investment and endowment income	88,343	549	88,892
21 Net appreciation in fair value of investments	59,833	155,668	215,501
22 Contributions	5,973	166,914	172,887
23 Present value adjustment to annuities payable		9,181	9,181
24 Increase in Net Assets from Non-operating Activities	54,419	199,628	254,047
25 Total Decrease in Net Assets	(112,719)	(29,231)	(141,950)
26 Beginning Net Assets	4,331,141	4,938,390	9,269,531
27 Cumulative effect of accounting change	60,581		60,581
28 Beginning Net Assets, as restated	4,391,722	4,938,390	9,330,112
29 Ending Net Assets	\$4,279,003	\$4,909,159	\$9,188,162

The accompanying notes are an integral part of these statements.

Consolidated Statements of Activities

in thousands

	Year Ended June 30, 2018		
Operating	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Revenues:			
1 Student tuition and fees	\$2,043,455		\$2,043,455
2 Less financial aid	(556,121)		(556,121)
3 Net student tuition and fees	1,487,334		1,487,334
4 Health care services	1,726,724		1,726,724
5 Contracts and grants	515,956		515,956
6 Auxiliary enterprises	375,898		375,898
7 Sales and services	163,052		163,052
8 Contributions	292,758		292,758
9 Other	138,208		138,208
10 Allocation of endowment spending	236,896		236,896
11 Total Revenues	4,936,826		4,936,826
12 Net assets released from restrictions	155,927	(\$155,927)	
13 Total Revenues and Reclassifications	5,092,753	(155,927)	4,936,826
Expenses:			
14 Salaries and benefits	2,808,353		2,808,353
15 Operating expenses	1,693,235		1,693,235
16 Depreciation	261,462		261,462
17 Interest on indebtedness	65,725		65,725
18 Expenses before Settlement	4,828,775		4,828,775
19 Increase (decrease) in Net Assets from Operating Activities before Settlement	263,978	(155,927)	108,051
20 Settlement (refer to Note 14)	215,000		215,000
21 Increase (decrease) in Net Assets from Operating Activities	48,978	(155,927)	(106,949)
Non-operating			
22 Allocation of endowment spending to operations	(97,462)	(139,434)	(236,896)
23 Changes in funding status of defined benefit plan	23,433		23,433
24 Investment and endowment income	67,665	737	68,402
25 Net appreciation in fair value of investments	124,229	336,557	460,786
26 Contributions	13,083	265,664	278,747
27 Present value adjustment to annuities payable		1,790	1,790
28 Increase in Net Assets from Non-operating Activities	130,948	465,314	596,262
29 Total increase in Net Assets	179,926	309,387	489,313
30 Beginning Net Assets	4,151,215	4,629,003	8,780,218
31 Ending Net Assets	\$4,331,141	\$4,938,390	\$9,269,531

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

in thousands

	Year Ended June 30, 2019	Year Ended June 30, 2018
Cash Flows from Operating Activities		
Change in Net Assets	(\$81,369)	\$489,313
1 Adjustments to reconcile change in net assets to net cash provided by operating activities:		
2 Depreciation and amortization	281,159	261,462
3 Loss on the disposal/sale of plant assets	248	1,160
4 In-kind receipt of property, plant and equipment	(4,797)	(1,624)
5 Present value adjustment to annuities payable	(9,003)	(1,663)
6 Increase in accounts receivable	(10,660)	(54,421)
7 Decrease (increase) in pledges receivable	9,528	(64,109)
8 Increase in inventories, prepaid expenses and other assets	(22,472)	(46,188)
9 Increase in accounts payable	(410)	(34,017)
10 Increase in accrued liabilities	505,825	263,974
11 Increase (decrease) in refundable advances	5,503	(2,216)
12 (Decrease) increase in deposits and deferred revenue	(4,827)	15,253
13 Increase in other liabilities	1,756	1,493
14 Contributions restricted for property, plant and equipment and permanent investment	(163,965)	(242,161)
15 Net realized gain on sale of investments	(185,014)	(228,398)
16 Net unrealized appreciation in investments	(28,396)	(232,402)
17 Net Cash provided by Operating Activities	293,106	125,456
Cash Flows from Investing Activities		
18 Proceeds from note collections	12,972	16,372
19 Notes issued	(4,612)	(10,251)
20 Proceeds from sale and maturity of investments	4,775,556	4,471,561
21 Purchase of investments	(4,652,547)	(4,495,337)
22 Purchase of property, plant and equipment	(448,171)	(420,545)
23 Net Cash used in Investing Activities	(316,802)	(438,200)
Cash Flows from Financing Activities		
Contributions restricted for permanent investment:		
19 Endowment	190,368	223,520
20 Plant	70,632	139,252
21 Trusts and other	1,292	1,947
22 Repayment of long-term debt	(23,555)	(1,400)
23 Increase (decrease) in federal student loan funds	3,617	(1,330)
24 Investment gain (loss) on annuities payable	8,500	(6,667)
25 Payment on annuities payable	(11,007)	(11,315)
26 Increase to annuities payable resulting from new contributions	7,110	4,210
27 Net Cash provided by Financing Activities	246,957	348,217
28 Net increase in Cash and Cash equivalents	223,261	35,473
29 Cash and Cash equivalents at beginning of year	818,978	783,505
30 Cash and Cash equivalents at end of year	\$1,042,239	\$818,978

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Note 1.

Significant Accounting Policies Followed by the University of Southern California are Set Forth Below:

General:

The University of Southern California (“university”) is a not-for-profit (“NFP”), major private research university. The university is generally exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

The university is also generally exempt from payment of California state income, gift, estate and inheritance taxes.

Basis of Presentation:

The consolidated financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America and with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Not-for-Profit Entities, which requires the university to classify its net assets into two categories according to donor-imposed restrictions: net assets without donor-imposed restrictions and net assets with donor-imposed restrictions. All material transactions between the university and its subsidiaries have been eliminated.

Net Assets Without and With Donor Restrictions:

Net assets without donor restrictions are the part of net assets of a not-for-profit entity that are not subject to donor-imposed restrictions. A donor-imposed restriction is a donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the following: a) the nature of the not-for-profit entity, b) the environment in which it operates and c) the purposes specified in its articles of incorporation or bylaws or comparable documents.

This classification includes all revenues, gains and expenses not restricted by donors. The university reports all expenses, with the exception of investment expenses, which are required to be netted against investment return, in this class of net assets, since the use of restricted contributions in accordance with donors’ stipulations results in the release of the restriction.

The part of net assets of a not-for-profit entity that is subject to donor-imposed restrictions includes contributions for which donor-imposed restrictions have not been met (primarily future capital projects), endowment appreciation, charitable remainder unitrusts, pooled income funds, gift annuities and pledges receivable.

Measure of Operations:

The university’s measure of operations as presented in the consolidated statements of activities includes revenue from tuition (net of certain scholarships and fellowships) and fees, grants and contracts, health care services, contributions for operating programs, the allocation of endowment spending for operations and other revenues. Operating expenses are reported on the consolidated statements of activities by natural classification.

The university’s non-operating activity within the consolidated statements of activities includes investment returns and other activities related to endowment, long-term benefit plan obligation funding changes, student loan net assets and contributions related to land, buildings and equipment that are not part of the university’s operating activities.

Other Accounting Policies:

Cash and cash equivalents consist of U.S. Treasury bills, certificates of deposit, money market funds and all other short-term investments available for current operations with original maturities of 90 days or less at the time of purchase.

Investments are stated at fair value. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the consolidated statements of activities. Realized gains and losses upon the sale of investments are calculated using the specific identification method and trade date.

Alternative investment holdings and certain other limited partnership interests are invested in both publicly traded and privately owned securities. The fair values of private investments are based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information.

The university applies the provision of FASB ASC 820, Fair Value Measurements, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the university for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level I - Quoted prices in active markets for identical assets or liabilities.
- Level II - Inputs other than Level I that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level III - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III investments are valued by the university based upon valuation information received from the relevant entity, which may include last trade information, third-party appraisals of real estate or valuations prepared by custodians for assets held in trusts by other trustees where the university is named as a beneficiary. The university may also utilize industry standard valuation techniques, including discounted cash flow models. Significant increases or decreases in these inputs in isolation may result in a significantly lower or higher fair value measurement, respectively.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The university applies the authoritative guidance contained in FASB ASC 820-10, Fair Value Measurements and Disclosures, for estimating the fair value of investments in investment funds that have calculated Net Asset Value (NAV) per share in accordance with FASB ASC 946-10, Financial Services-Investment Companies (formerly the American Institute of

Notes to Consolidated Financial Statements

Note 1. (continued)

Certified Public Accountants Audit and Accounting Guide, Investment Companies). According to this guidance, in circumstances in which NAV per share of an investment is not determinative of fair value, a reporting entity is permitted to estimate the fair value of an investment in an investment fund using the NAV per share of the investment (or its equivalent) without further adjustment, if the NAV per share of the investment is determined in accordance with FASB ASC 946-10 as of the reporting entity's measurement date. Accordingly, the university uses the NAV as reported by the money managers as a practical expedient to determine the fair value of investments in investment funds which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment fund or prepare their financial statements consistent with the measurement principles of an investment fund. At June 30, 2019 and 2018, the fair value of all such investments in investment funds has been determined by using NAV as a practical expedient, adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio.

Inventories are valued at the lower of cost (first-in, first-out) or market.

Property, plant and equipment, including collections of works of art and historical treasures, are stated at cost or fair value at the date of contribution, plus the estimated value of any associated legal retirement obligations, less accumulated depreciation, computed on a straight-line basis over the estimated useful or component lives of the assets (equipment and library books useful lives ranging from 4 to 10 years and buildings component lives ranging from 5 to 50 years). Equipment is removed from the records at the time of disposal. The university follows the policy of recording contributions of longlived assets directly in without donor restrictions, when the asset is placed in service.

The university's split interest agreements with donors consist primarily of gift annuities, unitrusts, pooled income funds and life estates. For irrevocable agreements, assets contributed are included in the university's investments and stated at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is discounted at an appropriate risk-adjusted rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on split interest agreements range from 2.2% to 7.5%. The liabilities are adjusted during the terms of the trusts for changes in the fair value of the assets, accretion of discounts and other changes in the estimates of future benefits. The valuation follows generally accepted actuarial methods and is based on the requirements of FASB ASC 958.

The 2012 Individual Annuity Mortality Basic Table (without margin) for Males and Females with Projection Scale G2 for Males and Females were used in the valuations. For split interest agreements related to the state of Washington, the university holds a Certificate of Exemption issued by the state of Washington's Office of Insurance Commissioner to issue charitable gift annuities. The university has been in compliance with Revised Code of Washington 48.38.010(6) throughout the time period covered by the financial statements.

The university has recorded conditional asset retirement obligations associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in its facilities. When an

asset retirement obligation is identified, the university records the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset. The fair value of the conditional asset retirement obligations is estimated using a probability weighted, discounted cash flow model. The present value of future estimated cash flows is calculated using the credit adjusted interest rate applicable to the university in order to determine the fair value of the conditional asset retirement obligations. For the years ended June 30, 2019 and 2018, the university recognized accretion expense related to conditional asset retirement obligations of approximately \$6,526,000 and \$6,237,000, respectively. For the years ended June 30, 2019 and 2018, the university settled asset retirement obligations of approximately \$944,000 and \$1,000,000, respectively. As of June 30, 2019 and 2018, included in the consolidated balance sheets are asset retirement obligations of \$132,918,000 and \$126,865,000, respectively.

The university recognizes tuition and fees revenue on a straight-line basis over each academic session based on gross price, net of explicit price concessions such as scholarships, discounts and waivers ("Financial aid"), and is displayed in the consolidated statements of activities in "Tuition and fees." Given the timing of each year's academic sessions, nearly all performance obligations are satisfied by the university within the fiscal year. Tuition and fees revenue is derived from degree programs and executive and continuing education programs. Financial aid is awarded to students based on need and merit. Financial aid does not include payments made to students for services rendered to the university.

Notes to Consolidated Financial Statements

Note 1. (continued)

Financial aid for the year ended June 30, 2019, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$330,683	\$170,758	\$501,441
Endowed scholarships	36,488	18,842	55,330
External financial aid	30,182	15,585	45,767
Total	\$397,353	\$205,185	\$602,538

Financial aid for the year ended June 30, 2018, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$302,203	\$166,884	\$469,087
Endowed scholarships	28,938	15,980	44,918
External financial aid	27,132	14,984	42,116
Total	\$358,273	\$197,848	\$556,121

Room and board revenues are included as part of auxiliary enterprises, however the revenue recognition process mirrors that for tuition and fees. Each of these items is supported by separate contracts entered into between the university and the individual student. Tuition and fees and room and board revenues are recognized as operating revenue in the period in which the university satisfies its performance obligations to its students. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of accounting in ASC 606. The university's performance obligations are to provide education to the student and, in certain instances, other performance obligations such as room and board. The value that is recognized for each performance obligation is set forth in publicly available university price lists, which the university believes approximates the standalone selling price, and is codified in the individual contracts with each student. Individual contracts for tuition and fees and room and board display the transaction price on a standalone basis for each service to be provided to each specific student. Additionally, the contract will contain the price adjustment in the form of financial aid grants that are being awarded to the student.

The timing(s) of billings, cash collections and revenue recognition results in accounts receivable and deferred revenue and student deposits on the consolidated statements of financial position. Receivables are recognized only to the extent that the university has an unconditional right to consideration to which it is entitled in exchange for goods and services transferred to the student. Receipts received in advance of goods and services performed are recorded as deferred revenue and student deposits.

Sponsored research agreements are primarily considered non-exchange transactions which are recognized in contracts and grants revenue on the consolidated statements of activities as the associated barriers are overcome, which generally is as allowable expenditures under such agreements are incurred. Non-exchange agreements are considered conditional if the terms of the agreement include both a right of return/release of assets received/promised and a barrier. Any funding received in advance of expenditure is recorded as a refundable advance. For sponsored research agreements considered to be exchange transactions, revenues are recognized as performance obligations are satisfied which in most cases mirrors the timing of when

related costs are incurred. Net assets include contributions to the university and its various schools and departments. The university has determined that any donor-imposed restrictions of contributions for current or developing programs and activities are generally met within the operating cycle of the university and therefore, the university's policy is to record these net assets as without donor restrictions. Internally designated net assets are those which have been appropriated by the Board of Trustees or designated by management, and reflected in net assets without donor restrictions.

The university receives federal reimbursement for a portion of the costs of its facilities and equipment used in organized sponsored research. The federal Office of Management and Budget establishes principles for determining such reimbursable costs and requires conformity of the lives and methods used for federal cost reimbursement accounting and financial reporting purposes. The university's policies and procedures are in conformity with these principles.

Contributions from donors, including contributions receivable (unconditional promises to give), are recorded as revenues in the year received. Noncash contributions are recorded at fair value using quoted market prices, market prices for similar assets, independent appraisals or appraisals performed by university management. Contributions receivable are reported at their discounted value using credit-adjusted borrowing rates and an allowance for amounts estimated to be uncollectible is provided. Donor-restricted contributions, which are received and either spent or deemed spent within the same year, are reported as revenue without donor restrictions.

Contributions of long-lived assets with no donor-imposed time restrictions are reported as revenue without donor restrictions in the year received. Contributions restricted to the acquisition or construction of long-lived assets or subject to other time or purpose restrictions are reported as revenue with donor restrictions. The donor-restricted net assets resulting from these contributions are released to net assets without donor-restricted when the donor-imposed restrictions are fulfilled or the assets are placed in service. Contributions received for endowment investment are held in perpetuity and recorded as revenue with donor restrictions. Included in contributions on the consolidated statements of activities is a reclassification of private

Notes to Consolidated Financial Statements

Note 1. (continued)

contracts and grants revenue. For the years ended June 30, 2019 and 2018, the university recognized approximately \$145,000,000 and \$164,000,000 of private contracts and grants revenue in contributions on the consolidated statements of activities.

Health care services revenues include the net patient service revenues associated with Keck Hospital of USC, USC Norris Cancer Hospital, USC Verdugo Hills Hospital and USC Care Medical Group, Inc. Health care services revenue is reported at the amount that reflects the consideration to which the organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, government programs and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the university bills patients and third-party payors several days after the services are performed or the patient is discharged. Revenue is recognized as performance obligations are satisfied. Health care services revenues also include the revenues associated with the professional services agreement with the County of Los Angeles.

The majority of the hospitals' services are rendered to patients with commercial or managed care insurance, or under the federal Medicare and California State Medi-Cal programs. Reimbursement from these various payors is based on a combination of prospectively determined rates per discharge, per diem payments, discounted charges and reimbursed costs. Amounts received under the Medicare program are subject to retroactive settlements based on review and final determination by program intermediaries or their agents. The gross charges may be reduced by explicit price concessions, which include contractual adjustments based on agreements with third-party payers or implicit price concessions provided to uninsured patients. Provisions for contractual adjustments and retroactive settlements related to these payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as additional information becomes known or as final settlements are determined.

Net patient service revenue is recorded over time during the period these performance obligations are satisfied and at the determined transaction price, which represents the estimated net realizable amounts due from patients, third-party payers and others for health care services rendered. Estimated net realizable amounts represent amounts due, net of implicit and explicit price concessions. Implicit price concessions are based on management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The university believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care or patients receiving care in our outpatient centers. The university measures the performance obligation from admission into the hospital or commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

Sales and services revenue include revenues from university pharmacies and student clinics. The university recognizes revenue as it provides

pharmaceutical products and consultative services to the community (students, faculty, staff, retired employees, alumni, broader Los Angeles market). The transaction price is the amount the university expects to be entitled to in exchange for the products provided (either published rates available on the university pharmacy websites or agreed upon rates from third-party payers). Retail pharmacy sales revenue is recognized at a point in time when the pharmaceutical is provided to the patient, and consultative services, although the performance obligation meets over time revenue recognition as the patient benefits over time from the university, revenue is recognized at a point in time. This is due to consultative services being outpatient in nature, and thus, all services are provided on the same day.

Auxiliary enterprise revenue includes multiple revenue streams which are included in the consolidated statements of activities, and reported as net assets without donor restrictions. These multiple revenue streams include point of sale transactions from hospitality, food, beverage, bookstore transactions, transportation and revenue generated from athletics. Revenue generated from hospitality, food, beverage, and bookstore goods is recognized at a point in time, and the value that is recognized for each performance obligation is explicitly listed at each location, which the university believes approximates the standalone transaction price. The transaction price for revenue related to athletics is publicly available on the university Ticket Office website. The performance obligation related to football season tickets is completely satisfied within the fiscal year, and any season ticket sales that occur in advance of the next fiscal year are recognized as deferred revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Certain reclassifications have been made to prior years' financial statements for comparative purposes.

Recent Accounting Pronouncements:

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. ASU 2014-09 outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Under ASC 606, amounts recognized as bad debt expense related to health care services under the previous revenue recognition guidance are considered implicit price concessions which reduce the revenue that is recorded and no longer requires the presentation of allowance for doubtful accounts. Prior to the adoption of ASC 606, the university presented health care services revenue net of bad debt expense and accounts receivable related to patient care, net of allowance for doubtful accounts. Therefore, there was no impact to the presentation of revenue on the consolidated statements of activities as a result of adopting the standard, and the presentation of patient care receivables on the consolidated balance sheets. Furthermore, as a result of

Notes to Consolidated Financial Statements

Note 1. (continued)

this adoption, tuition and fees revenue are recorded net of explicit price concessions such as scholarships, discounts and waivers (“Financial aid”), and displayed in the consolidated statements of activities in “Tuition and fees.” Prior to the adoption of ASC 606, the university presented tuition and fees revenue less financial aid on the consolidated statements of activities. The university adopted this standard for fiscal year 2019 using the modified retrospective method for all contracts that are not completed at the adoption date. The adoption of this standard did not materially impact the university’s financial position.

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, Financial Instruments—Overall Recognition and Measurement of Financial Assets and Financial Liabilities. This update impacts all organizations that hold financial assets and liabilities and changes how these organizations will recognize, measure, present, and disclose information about certain financial instruments. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2018. The university is currently evaluating the effect of adoption to the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the consolidated balance sheets. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. The university is currently evaluating the effect of adoption to the financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt repayment or debt extinguishment costs, contingent considerations payments made after a business combination, and distribution received from equity method investments. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The university is currently evaluating the effect of adoption to the financial statements.

In November 2016, the FASB issued ASU 2016-18, a standard on Restricted Cash. This standard requires that the Consolidated Statement of Cash Flows explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents (“Total Cash”). Additionally, a disclosure describing the nature of the restrictions and a reconciliation of Total Cash to the amounts of Cash and cash equivalents presented on the consolidated balance sheet is required. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The university is currently evaluating the effect of adoption to the financial statements.

In March 2017, the FASB issued ASU 2017-17, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires that an employer report the service cost component of pension costs in the same line item as employee compensation costs within operating income. The other components of net benefit cost are required to be presented in the consolidated statements of activities separately from the service cost component and outside a subtotal of income from operations, and will not be eligible for capitalization. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The university is currently evaluating the effect of adoption to the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard is intended to clarify and improve the scope and the accounting guidance for contributions received and made. The ASU is effective for fiscal years beginning after June 15, 2018, including interim periods within that annual period. Early adoption is permitted. The university adopted this standard, on a modified prospective basis for fiscal year 2019, and the adoption of this standard did not materially impact the university’s financial position.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This standard removes certain disclosures, modifies certain disclosures and adds additional disclosures related to fair value measurement. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The university is currently evaluating the effect of adoption to the financial statements.

Notes to Consolidated Financial Statements

Note 2.

Liquidity and Availability:

USC's financial assets available within one year of the consolidated balance sheet date for general expenditure are as follows as of June 30 (in thousands):

	Year Ended June 30, 2019	Year Ended June 30, 2018
Total assets at year end	\$13,139,364	\$12,603,032
Less:		
Notes receivable due in more than one year	(9,337)	(11,562)
Pledges receivable due in more than one year	(381,413)	(454,270)
Donor-restricted endowment funds	(4,222,348)	(4,060,117)
Board-designated endowment funds	(1,517,217)	(1,484,150)
Annuities and living trusts	(169,328)	(168,332)
Inventories, prepaid expenses and other assets	(127,154)	(124,080)
Property, plant and equipment	(4,363,842)	(4,174,090)
Financial assets available at year end for current use	\$2,348,725	\$2,126,431

The university's endowment funds consist of donor-restricted and board-designated endowment funds. Income from donor-restricted endowments is restricted for specific purposes and therefore, is not available for general expenditure. As described in Note 7, for fiscal year 2019 and 2018, the Board of Trustees approved current distribution of 100% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provision of the spending rule, for fiscal year 2019 and 2018, the Board of Trustees approved an endowment pool payout of \$29.45 a share, for a total spending rule allocation of \$246,551,000 and \$233,765,000. As described in Note 6, the university also has unfunded commitments on alternative investments totaling \$749,821,000 and \$656,181,000 for fiscal year 2019 and 2018.

As part of the university's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the university invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the university has committed lines of credit in the amount of \$500,000,000, which it could draw upon. Additionally, the university has a board-designated endowment of \$1,517,217,000 as of June 30, 2019. Although the university does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. However, both the board-designated endowment fund and donor-restricted endowments contain investments with lock-up provisions that reduce the total investments that could be made available (see Note 6 for disclosures about investments).

Note 3.

Accounts Receivable:

Accounts receivable are summarized as follows at June 30 (in thousands):

	2019	2018
U.S. government	\$40,010	\$37,938
Student and other, net of allowance for doubtful accounts of \$12,505 (2019), \$12,505 (2018)	157,919	187,992
Patient care, net of allowance for doubtful accounts of \$0 (2019), \$13,999 (2018)	273,782	235,121
Total	\$471,711	\$461,051

Notes to Consolidated Financial Statements

Note 4.

Notes and Loans Receivable:

The university is required to disclose the nature of credit risk inherent in the portfolio of financing receivables, its analysis and assessment in arriving at the allowance for credit losses (doubtful accounts) and the changes and reasons for those changes in the allowance for credit losses.

Long-term financing receivables as of June 30, 2019, consist of the following (in thousands):

	June 30, 2019		
	Financing Receivables, Gross	Allowance for Doubtful Accounts	Net
Perkins loans	\$38,255		\$38,255
University student loans	8,552	(\$2,106)	6,446
Other student loans	16,365		16,365
Total student loans	63,172	(2,106)	61,066
Faculty and other loans	31,052		31,052
Total	\$94,224	(\$2,106)	\$92,118

Long-term financing receivables as of June 30, 2018, consist of the following (in thousands):

	June 30, 2018		
	Financing Receivables, Gross	Allowance for Doubtful Accounts	Net
Perkins loans	\$45,734		\$45,734
University student loans	11,547	(\$2,968)	8,579
Other student loans	14,272		14,272
Total student loans	71,553	(2,968)	68,585
Faculty and other loans	33,532		33,532
Total	\$105,085	(\$2,968)	\$102,117

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and where applicable, the existence of any guarantees or indemnifications. The university's Perkins loans represent the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed. Included in other student loans are loans related to the Federal Health Professional Student Loan Program and Loans for Disadvantaged Students.

Factors also considered by management when performing its assessment of the adequacy of the allowance, in addition to general economic conditions and the other factors described above include, but are not limited to a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis. It is the university's policy to write off a loan only when it is deemed to be uncollectible.

Notes to Consolidated Financial Statements

Note 4. (continued)

The following table illustrates the aging analysis of receivables as of June 30, 2019 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	\$1,188	\$273	\$6,281	\$30,513	\$38,255
University student loans	135	14	4,221	4,182	8,552
Other student loans	172		224	15,969	16,365
Total student loans	1,495	287	10,726	50,664	63,172
Faculty and other loans				31,052	31,052
Total	\$1,495	\$287	\$10,726	\$81,716	\$94,224

The following table illustrates the aging analysis of receivables as of June 30, 2018 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	\$1,164	\$210	\$6,865	\$37,495	\$45,734
University student loans	277	14	5,940	5,316	11,547
Other student loans	417	8	308	13,539	14,272
Total student loans	1,858	232	13,113	56,350	71,553
Faculty and other loans				33,532	33,532
Total	\$1,858	\$232	\$13,113	\$89,882	\$105,085

Considering the other factors already discussed herein, management considers the allowance for credit losses to be prudent and reasonable. Furthermore, the university's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for credit losses at June 30, 2019 and 2018, is adequate to absorb credit losses inherent in the portfolio as of these dates.

As part of the program to attract and retain exemplary faculty and senior staff, the university provides home mortgage financing assistance. Notes receivable amounting to \$31,052,000 and \$33,532,000 were outstanding as of June 30, 2019 and 2018, respectively, and are collateralized by deeds of trust. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history. At June 30, 2019, there were no amounts past due under the faculty and staff loan program.

Determination of the fair value of notes receivable, which are primarily federally sponsored student loans with U.S. government-mandated interest rates and repayment terms, and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

Notes to Consolidated Financial Statements

Note 5.

Pledges Receivable:

Unconditional promises are included in the consolidated financial statements as pledges receivable and revenue in the appropriate net asset category. Pledges are recorded after discounting using rates ranging from 1% to 6% in order to derive the present value of the future cash flows.

Unconditional promises are expected to be realized in the following periods as of June 30 (in thousands):

	2019	2018
Less than one year	\$80,916	\$115,916
One to five years	313,667	362,714
More than five years	194,727	242,007
Less: discount	(75,398)	(94,478)
Less: allowance	(51,583)	(55,973)
Total	\$462,329	\$570,186

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

	2019	2018
Endowment for departmental programs and activities	\$203,837	\$254,888
Endowment for scholarship	28,133	28,492
Building construction	97,515	144,507
Departmental programs and activities	132,844	142,293
Total	\$462,329	\$570,186

Conditional pledges for the university, which depend on the occurrence of specified future and uncertain events, at June 30, 2019 and 2018, was \$316,536,000 and \$345,517,000, respectively. The majority of these conditional pledges are related to construction of the Ellison Institute for Transformative Medicine, as well as the renovation of the Los Angeles Memorial Coliseum.

Notes to Consolidated Financial Statements

Note 6.

Investments:

Investments consist of the following at June 30 (in thousands):

	2019	2018
Equities	\$2,344,188	\$2,291,991
Fixed income securities	1,024,505	1,114,134
Alternative investments:		
Hedge funds	1,217,195	1,107,682
Private capital	1,340,500	1,360,698
Real estate and other	276,671	207,078
Assets held by other trustees	148,177	149,728
Total	\$6,351,236	\$6,231,311

The following table summarized the levels of financial instruments carried at fair value as defined by ASC 820 valuation hierarchy defined previously, for the year ended June 30, 2019 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	\$2,133,797	\$984	\$94,425	\$114,982	\$2,344,188
Fixed income securities	263,994	736,046	24,464		1,024,504
Hedge funds				1,217,196	1,217,196
Private capital				1,340,500	1,340,500
Real estate and other			30,566	246,105	276,671
Assets held by other trustees			148,177		148,177
Total	\$2,397,791	\$737,030	\$297,632	\$2,918,783	\$6,351,236

The following table summarized the levels of financial instruments carried at fair value as defined by ASC 820 valuation hierarchy defined previously, for the year ended June 30, 2018 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	\$2,081,176	\$738	\$94,416	\$115,661	\$2,291,991
Fixed income securities	324,488	757,909	31,737		1,114,134
Hedge funds				1,107,682	1,107,682
Private capital				1,360,698	1,360,698
Real estate and other			36,245	170,833	207,078
Assets held by other trustees			149,728		149,728
Total	\$2,405,664	\$758,647	\$312,126	\$2,754,874	\$6,231,311

Notes to Consolidated Financial Statements

Note 6. (continued)

The following table summarized the university's Level III reconciliation of investments for the year ended June 30, 2019 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments:								
Equities	\$94,416					\$9		\$94,425
Fixed income securities	31,737	\$34,523	(\$41,437)	\$160	(\$70)		(\$449)	24,464
Real estate and other	36,245		(4,480)	(1,350)	237		(86)	30,566
Assets held by other trustees	149,728	4,979	(8,298)	1,787	(19)			148,177
Total	\$312,126	\$39,502	(\$54,215)	\$597	\$148	\$9	(\$535)	\$297,632

The following table summarized the university's Level III reconciliation of investments for the year ended June 30, 2018 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments:								
Equities	\$83,402				\$11,014			\$94,416
Fixed income securities	29,289	\$41,104	(\$38,324)	\$276	(608)			31,737
Real estate and other	43,600	34	(6,674)	(820)	200		(\$95)	36,245
Assets held by other trustees	146,120				3,608			149,728
Total	\$302,411	\$41,138	(\$44,998)	(\$544)	\$14,214	\$0	(\$95)	\$312,126

The university uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Investment income and gains presented on the consolidated statements of activities contains endowment appreciation utilized to fund the spending rule, and investment income net of expenses. Current year investment return reported in non-operating activities is net of external and direct internal investment costs, reduced by endowment appreciation utilized to fund the spending rule. The university's total investment return for the years ended June 30, 2019 and 2018, was \$304,393,000 and \$529,188,000, respectively.

Notes to Consolidated Financial Statements

Note 6. (continued)

The following table lists investments by major category for the year ending June 30, 2019 (in thousands):

At June 30, 2019

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms
Distressed Obligation Partnerships	U.S. and Non-U.S. Distressed Debt Securities	\$9,867	\$15,255	Approximately 2 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Hedge Funds	U.S. and Non-U.S. Investments in Relative Value, Event Driven, Long/Short and Directional Strategies	1,217,196	98,576	99.9% of NAV has an open-ended life and 0.1% of NAV will be liquidated on an undetermined basis.	Ranges between bimonthly redemption with 75 days notice, quarterly redemption with up to 185 days notice, semiannual redemption with up to 120 days notice, annual redemption with up to 120 days notice, biannual redemption with 90 days notice and 5-year lockup with 90 days notice.	2% of NAV is locked-up for 1 month, 11% of NAV is locked-up for 3 months, 45% of NAV is locked-up for 1 year, and 42% of NAV is locked-up for more than 1 year.
Natural Resources Partnerships	U.S. and Non-U.S. Investments in Upstream, Midstream and Downstream Natural Resources Investments	417,816	151,782	Approximately 4 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Capital Partnerships	U.S. and Non-U.S. Private Equity and Venture Capital Investments	912,817	273,424	Approximately 3 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Real Estate Partnerships	U.S. and Non-U.S. Real Estate	239,056	210,784	Approximately 5 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Equity Funds	U.S. and Non-U.S. Equity Securities	114,982	Not Applicable	Open Ended	Minimum monthly	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	7,049	Not Applicable	Open Ended	Monthly	None
Total		\$2,918,783	\$749,821			

Notes to Consolidated Financial Statements

Note 6. (continued)

The following table lists investments by major category for the year ending June 30, 2018 (in thousands):

At June 30, 2018

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms
Distressed Obligation Partnerships	U.S. and Non-U.S. Distressed Debt Securities	\$15,736	\$17,042	Approximately 2 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Hedge Funds	U.S. and Non-U.S. Investments in Relative Value, Event Driven, Long/Short and Directional Strategies	1,107,683	58,868	99.9% of NAV has an open-ended life and 0.1% of NAV will be liquidated on an undetermined basis.	Ranges between bimonthly redemption with 75 days notice, monthly redemption with 90 days notice, quarterly redemption with up to 120 days notice, semiannual redemption with 60 to 90 days notice, annual redemption with up to 120 days notice, biannual redemption with 90 days notice and 5-year lockup with 90 days notice.	1% of NAV is locked-up for 1 month, 17% of NAV is locked-up for 3 months, 52% of NAV is locked-up for 1 year and 30% of NAV is locked-up for more than 1 year.
Natural Resources Partnerships	U.S. and Non-U.S. Investments in Upstream, Midstream and Downstream Natural Resources Investments	501,549	191,668	Approximately 4 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Capital Partnerships	U.S. and Non-U.S. Private Equity and Venture Capital Investments	843,413	216,373	Approximately 3 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Real Estate Partnerships	U.S. and Non-U.S. Real Estate	170,718	172,230	Approximately 4 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Equity Funds	U.S. and Non-U.S. Equity Securities	115,661	Not Applicable	Open Ended	Minimum monthly	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	114	Not Applicable	Open Ended	Monthly	None
Total		\$2,754,874	\$656,181			

Notes to Consolidated Financial Statements

Note 7.

Endowment:

Endowment net assets are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income and realized gains be utilized for current and future needs. Long-term investment net assets (board-designated endowment funds) have been established from restricted contributions whose restrictions have been met and unrestricted contributions which have been designated by the Board of Trustees or management for the same purpose as endowment. The university also has a beneficial interest in the net income earned from assets which are held and managed by other trustees.

Donor-restricted and board-designated endowment funds are summarized as follows for the year ended June 30, 2019 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	\$1,421,852	\$4,093,419	\$5,515,271
Non-pooled	95,365	128,929	224,294
Total	\$1,517,217	\$4,222,348	\$5,739,565

Donor-restricted and board-designated endowment funds are summarized as follows for the year ended June 30, 2018 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	\$1,409,305	\$3,933,331	\$5,342,636
Non-pooled	74,845	126,786	201,631
Total	\$1,484,150	\$4,060,117	\$5,544,267

Pooled investments represent donor-restricted and board-designated endowment funds which have been commingled in a unitized pool (unit value basis) for purposes of investment. At June 30, 2019 and 2018, the pool is comprised of cash and cash equivalents (0.65%) and (0.63%), equities (56.70%) and (54.29%), fixed income securities (11.86%) and (12.06%), alternative investments (26.61%) and (29.94%) and real estate and other investments (4.18%) and (3.08%), respectively. Access to or liquidation from the pool is on the basis of the market value per unit on the preceding monthly valuation date. The unit value at June 30, 2019 and 2018, was \$676.76 and \$676.51, respectively.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original contribution as of the contribution date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the university classifies as donor-restricted funds (a) the original value of contributions donated to the endowment, (b) the original value of subsequent contributions to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the university considers various factors in making a determination to appropriate or accumulate endowment funds including: duration and preservation of the fund, economic conditions, effects of inflation or deflation, expected return on the funds and other economic resources of the university.

Notes to Consolidated Financial Statements

Note 7. (continued)

Endowment net asset composition by type of funds as of June 30, 2019 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		\$4,222,348	\$4,222,348
Board-designated endowment funds	\$1,517,217		1,517,217
Total	\$1,517,217	\$4,222,348	\$5,739,565

Endowment net asset composition by type of funds as of June 30, 2018 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		\$4,060,117	\$4,060,117
Board-designated endowment funds	\$1,484,150		1,484,150
Total	\$1,484,150	\$4,060,117	\$5,544,267

Changes in endowment net assets for the year ended June 30, 2019 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2017	\$1,484,150	\$4,060,117	\$5,544,267
Total investment return, net	114,815	138,274	253,089
Contributions and transfers	31,147	156,641	187,788
Appropriation of endowment assets for expenditure	(112,895)	(132,684)	(245,579)
Endowment net assets at June 30, 2018	\$1,517,217	\$4,222,348	\$5,739,565

Changes in endowment net assets for the year ended June 30, 2018 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2017	\$1,404,699	\$3,725,821	\$5,130,520
Total investment return, net	156,808	314,605	471,413
Contributions and transfers	20,105	159,125	179,230
Appropriation of endowment assets for expenditure	(97,462)	(139,434)	(236,896)
Endowment net assets at June 30, 2018	\$1,484,150	\$4,060,117	\$5,544,267

Notes to Consolidated Financial Statements

Note 7. (continued)

Endowments classified with donor restrictions are to be utilized for the following purposes:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of June 30 (in thousands):

	2019	2018
Restricted for scholarship support	\$982,166	\$945,638
Restricted for faculty support	975,872	955,824
Restricted for program support	2,264,310	2,158,655
Total endowment assets with donor restrictions	\$4,222,348	\$4,060,117

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor contribution amounts (deficit). When donor-restricted endowment fund deficits exist, they are classified as a reduction of net assets with donor restrictions. Deficits of this nature exist in various donor-restricted endowment funds, which together have an original value of \$36,070,000 and a current value of \$35,756,000 with a deficiency of \$314,000 and an original value of \$26,978,000 and a current fair value of \$26,743,000 and a deficiency of \$235,000 as of June 30, 2019 and 2018, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent. The university has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

The university has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under these policies, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The university expects its endowment funds over time to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

To achieve its long-term rate of return objectives, the university relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The university targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The university utilizes a spending rule for its pooled endowment. The spending rule determines the endowment income and realized gains to be distributed currently for spending with the provision that any amounts remaining after the distribution be transferred and reinvested in the endowment pool as board-designated as endowment.

For the 2019 fiscal year, the Board of Trustees approved current distribution of 100% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provisions of the spending rule, \$29.45 was distributed to each time-weighted unit for a total spending rule allocation of \$246,551,000. Investment income amounting to \$7.14 per time-weighted unit was earned, totaling \$59,756,000, and \$186,795,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2019 represent 4.47% of the market value of the endowment pool at June 30, 2019.

For the 2018 fiscal year, the Board of Trustees approved current distribution of 102% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provisions of the spending rule, \$28.87 was distributed to each time-weighted unit for a total spending rule allocation of \$233,765,000. Investment income amounting to \$4.51 per time-weighted unit was earned, totaling \$36,517,000, and \$197,249,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2018 represent 4.38% of the market value of the endowment pool at June 30, 2018.

Notes to Consolidated Financial Statements

Note 8.

Property, Plant and Equipment:

Property, plant and equipment consisted of the following at June 30 (in thousands):

	2019	2018
Land and improvements	\$201,409	\$196,738
Buildings and improvements	5,538,709	5,170,770
Buildings under capital leases	65,822	65,822
Equipment	740,141	679,578
Library books and collections	421,392	399,399
Construction-in-progress	253,250	250,575
	7,220,723	6,762,882
Less: Accumulated depreciation	2,856,881	2,588,792
Total	\$4,363,842	\$4,174,090

Note 9.

Leases:

The university is the lessee of various equipment and space under non-cancelable operating and capital leases. Operating lease rental expense for the years ended June 30, 2019 and 2018, was approximately \$42,122,000 and \$37,539,000, respectively. Space leases contain customary escalation clauses, which are included in annual aggregate minimum rentals.

Future aggregate minimum rental payments as of June 30, under operating and capital leases are as follows (in thousands):

Future minimum rental payments:	Operating	Capital
2020	\$54,350	\$1,642
2021	50,084	1,685
2022	48,554	1,730
2023	41,305	1,775
2024	35,987	1,823
Thereafter	246,267	664,470
	476,547	673,125
Less: Interest on capital leases		(597,256)
Total	\$476,547	\$75,869

The university entered into a lease agreement with the Los Angeles Memorial Coliseum Commission (LAMCC) to assume the operations of the Los Angeles Memorial Coliseum and Los Angeles Memorial Sports Arena.

The lease agreement with the LAMCC expires in 2033, or in 2054, if all options are exercised, at which time a second lease agreement with the California Science Center (CSC), an institution of the state of California, commences. The lease with the CSC expires in 2111, assuming all options are exercised.

Under the terms of both lease agreements, the university is required to make certain capital improvements. The present value of the future minimum lease payments as of June 30, 2019 and 2018, is \$75,869,000 and \$74,222,000, respectively.

Notes to Consolidated Financial Statements

Note 10.

Bonds and Notes Payable:

Bond and notes payable outstanding as of June 30 (in thousands):

	Interest %	Maturity	2019	2018
California Educational Facilities Authority Revenue Bonds and Notes:				
Series 2009C	5.25	2025	\$82,305	\$82,305
Premium			3,051	3,661
Series 2012A	5.00	2024	41,595	41,595
Premium			4,389	5,401
Series 2015A	5.00	2026	42,960	42,960
Premium			6,248	7,232
University of Southern California Bonds:				
Series 1998 Taxable	6.26	2019		4,585
Discount				(5)
Series 2011 Taxable	5.25	2112	300,000	300,000
Discount			(2,478)	(2,505)
Series 2016 Taxable	3.03	2040	722,580	722,580
Discount			(3,236)	(3,395)
Series 2017 Taxable	3.84	2048	402,320	402,320
Discount			(1,682)	(1,740)
California Infrastructure Revenue Bonds (USC - Soto Street Health Sciences):				
Series 2010 (Soto)	3.25-5.00	2018-2032	26,750	28,220
Premium			1,544	1,674
Notes Payable	5.00	2018-2020		17,500
			1,626,346	1,652,388
Less: current portion of long-term debt			1,540	6,055
Total			\$1,624,806	\$1,646,333

Principal payment requirements relating to bonds and notes payable, after giving effect to refunding, for the next five fiscal years are approximately: 2020 \$1,540,000; 2021 \$1,620,000; 2022 \$1,700,000; 2023 \$1,755,000; 2024 \$43,435,000, thereafter \$1,568,460,000.

Interest payments for fiscal year 2019 and 2018 were \$63,428,000 and \$63,405,000, respectively.

The university has a revolving line of credit with a bank with a maturity date of November 30, 2020. The credit agreement was amended on April 12, 2017, to increase the revolving line of credit to \$500,000,000, with all other terms and conditions, including the applicable rate and maturity, remaining substantially the same. The line of credit accrues interest based on LIBOR and contains a fee on the unused portion of the line of credit. During fiscal years ending June 30, 2019 and 2018, the university did not draw down on the line of credit. The line of credit contains certain restrictive covenants which include a minimum credit rating of "A" and "A2" from Standard and Poor's and Moody's, respectively, as well as a minimum total net assets of \$5,500,000,000. USC was in compliance with these covenants during fiscal years ending June 30, 2019 and 2018.

Notes to Consolidated Financial Statements

Note 11.

Retirement Benefits:

Retirement benefits for eligible university employees are provided through the Teachers Insurance and Annuity Association, The Vanguard Group, AIG Sun America, Fidelity Investments and Prudential Financial. Under these defined contribution plans, the university and plan participants make contributions to purchase individual, fixed or variable annuities equivalent to retirement benefits earned or to participate in a variety of mutual funds. Under the USC Retirement Savings Program, the university makes a 5% non-elective contribution to all eligible employees and also matches dollar for dollar the first 5% of the employees' contributions. Newly hired employees on or after January 1, 2012, will have the university non-elective contribution subject to a four-year vesting schedule. Benefits commence upon termination or retirement and pre-retirement survivor death benefits are also provided. Charges to operating expenses for the university's share of costs were approximately \$181,478,000 and \$169,505,000 during the years ended June 30, 2019 and 2018, respectively.

Retirement benefits for employees of USC Verdugo Hills Hospital and University Physician Associates are provided by a defined contribution 401(k) plan through Fidelity Investments. Until August 2011, the Keck and Norris hospital employees covered under a collective bargaining agreement with California Nurses Association were also covered under this 401(k) plan. Until January 2017, the National Union of Healthcare Workers ("NUHW") employees at Keck and Norris hospitals were also covered under this 401(k) plan. Under the 401(k) defined contribution plan, participants make contributions to purchase a variety of mutual funds.

Effective January 2018, the university contribution to the 401(k) plan is made on a paycheck-by-paycheck basis. Prior to this, the university made its contribution in a lump sum following the end of the calendar year and matched 100% of the participants' contributions up to 4% of eligible earnings, providing the participant was employed on the last day of the calendar year. In addition, the university made a 1% retiree medical benefit contribution to all NUHW participants who were both employed on the last day of the calendar year and worked 1,500 hours in that calendar year. The university contribution is subject to a five-year vesting schedule, although previously credited years prior to the Tenet and Verdugo acquisitions have been carried over. Benefits commence at age 59 1/2, termination of employment or retirement. Pre-retirement survivor death benefits are also provided. Charges to operating activities expenses for the university's share of costs were approximately \$0 and \$33,000 during the years ended June 30, 2019 and 2018, respectively.

Retirement benefits for non-exempt university employees are provided through a noncontributory defined benefit pension plan, the USC Support Staff Retirement Plan ("Plan"). The following table sets forth the Plan's funded status at June 30 (in thousands):

Changes in Projected Benefit Obligation	2019	2018
Benefit obligation at end of prior year	\$229,537	\$251,857
Interest cost	8,779	9,862
Actuarial gain	30,498	(12,939)
Annuity purchase for plan participants	(108,958)	
Benefits paid	(11,691)	(19,243)
	\$148,165	\$229,537

Change in Plan Assets

Fair value of plan assets at the end of prior year	\$208,841	\$190,974
Actual return on plan assets	16,481	16,110
Employer contribution	22,000	21,000
Annuity purchase for plan participants	(108,958)	
Benefits paid	(11,691)	(19,243)
	\$126,673	\$208,841

Notes to Consolidated Financial Statements

Note 11. (continued)

Reconciliation of Funded Status	2019	2018
Accumulated benefit obligation at end of year	(\$148,165)	(\$229,537)
Projected benefit obligation at end of year	(148,165)	(229,537)
Fair value of plan assets at end of year	126,672	208,840
Funded status	(\$21,493)	(\$20,697)

Components of Net Periodic Benefit Cost		
Interest cost	\$8,779	\$9,862
Expected return on plan assets	(10,300)	(11,513)
Amortization of net loss	3,702	5,898
Settlement	33,781	
Total benefit cost	\$35,962	\$4,247

Amounts recognized in the Statement of Financial Position		
Accrued liabilities	(\$21,493)	(\$20,697)

Amounts not yet recognized as components of Net Periodic Benefit Cost		
Net Loss	\$48,219	\$61,384

Changes in the net reduction to Without Donor Restrictions		
Net gain (loss)	\$24,318	(\$17,535)
Amortization of net loss	(3,702)	(5,898)
Recognition of net (gain) due to settlement	(33,781)	
Total benefit cost	(\$13,165)	(\$23,433)

The estimated net loss/(gain) and prior service cost for the Plan that will be recognized as components of net periodic benefit cost over the next fiscal year are \$3,512,000 and \$0, respectively.

The Plan was amended to freeze benefit accruals for all remaining active union participants effective December 23, 2009, and to provide full vesting for those participants. On April 5, 2019, a payment of \$108,957,844 was made to purchase annuities for 1,720 retirees and beneficiaries who were receiving monthly benefit payments from the Plan. As a result of this transaction, the responsibility for payment of the pension benefits was transferred to the insurance company, and ASC 715 settlement accounting was required. The effect of the settlement was determined based on a measurement date of March 31, 2019, in accordance with ASC 715-30-35-66A. As a result of the annuity purchase, 44.15% of the benefit obligation for the Plan was settled, and a pro rata portion of the net actuarial loss was recognized in expense, resulting in additional pension expense during fiscal 2019 of \$33,781,181.

Notes to Consolidated Financial Statements

Note 11. (continued)

Weighted-average assumptions used to determine net periodic benefit cost for year ended June 30:

	2019	2018
Discount rate	4.40%	4.00%
Expected return on plan assets	5.70%	6.20%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net year-end benefit obligations at June 30:

	2019	2018
Discount rate	3.65%	4.40%
Rate of compensation increase	N/A	N/A

Plan Assets

In managing the Plan assets, the university's objective is to be a responsible fiduciary while minimizing financial risk. Plan assets include a diversified mix of fixed income securities and equity securities across a range of sectors and levels of capitalization to maximize the long-term return for a prudent level of risk. In addition to producing a reasonable return, the investment strategy seeks to minimize the volatility in the university's expense and cash flow. The target allocation for pension benefit plan assets is 40% equity securities and 60% fixed income securities.

As described in Note 1, the university uses a hierarchy to report invested assets, including the invested assets of the Plan.

Following is a description of the valuation methodologies used for assets measured at fair value.

Fair Value

The Plan's interest in collective trusts is valued based on the net asset value information reported by the investment advisor. The fund is valued at the normal close of trading on the New York Stock Exchange every day the exchange is open (a "Business Day"). Equity securities are valued at the official closing price of, or the last reported sales price on, the exchange or market on which such securities are traded, as of the close of business on the day the securities are being valued or at the last available bid price. In cases where equity securities are traded on more than one exchange, the securities are valued on the exchange or market determined to be the most representative market, which may be either a securities exchange or the over-the-counter market. Short-term investments are carried at fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2019, a summary of fair value measurements by level for Plan investments measured at fair value on a recurring basis is as follows (in thousands):

	Level I	Level II	Level III	NAV	Total
Collective Trust Funds:					
Short-term investment fund		\$3,637			\$3,637
Equity securities		46,715			46,715
Fixed income securities		76,320			76,320
Total		\$126,672			\$126,672

Notes to Consolidated Financial Statements

Note 11. (continued)

At June 30, 2018, a summary of fair value measurements by level for investments measured at fair value on a recurring basis is as follows (in thousands):

	Level I	Level II	Level III	NAV	Total
Collective Trust Funds:					
Short-term investment fund		\$3,647			\$3,647
Equity securities		99,114			99,114
Fixed income securities		106,079			106,079
Total		\$208,840			\$208,840

Allocation of Assets

The year-end asset allocation, which approximates the weighted-average allocation for the Plan assets as of June 30 and in comparison to target percentages for each asset category, is as follows:

Asset Category	Actual at June 30, 2019	Target at June 30, 2019	Actual at June 30, 2018	Target at June 30, 2018
Short-term investment fund	2.9%	0.0%	1.7%	0.0%
Equity securities	36.9%	40.0%	47.5%	50.0%
Fixed income securities	60.2%	60.0%	50.8%	50.0%
Total	100.0%	100.0%	100.0%	100.0%

The portfolio is evaluated annually or when the actual allocation percentages are plus or minus 2% of the stated target allocation percentages. Changes in policy may be indicated as a result of changing market conditions or anticipated changes in the pension plan's needs. Prohibited transactions include investment transactions prohibited by the Employee Retirement Income Security Act of 1974 and speculative investments including commodities or unregistered stock without specific prior approval by the university's Investment Committee.

Contributions

No contribution to the plan is required to be made during the fiscal year ending June 30, 2019. At this time, it is anticipated that the university will make discretionary contributions to the pension plan during the next fiscal year, although the total amount of such contributions has not yet been determined.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

Fiscal Year Ending June 30	
2020	\$1,987
2021	2,892
2022	3,742
2023	4,509
2024	5,198
2025-2029	34,521

Notes to Consolidated Financial Statements

Note 12.

Net Assets:

The university's net assets as of June 30, 2019, includes the following (in thousands):

Nature of Specific Net Assets	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Internally reserved	\$1,030,039		\$1,030,039
Donor-restricted		\$55,154	55,154
Pledges		462,329	462,329
Unexpended endowment income	302,203		302,203
Annuity and living trusts		169,328	169,328
Donor-restricted endowment funds		4,222,348	4,222,348
Board-designated endowment funds	1,517,217		1,517,217
Debt service funds	120,696		120,696
Invested in plant	1,308,848		1,308,848
Total	\$4,279,003	\$4,909,159	\$9,188,162

The university's net assets as of June 30, 2018, includes the following (in thousands):

Nature of Specific Net Assets	Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restric- tions	Total Net Assets
Internally reserved	\$1,252,267		\$1,252,267
Donor-restricted		\$139,755	139,755
Pledges		570,186	570,186
Unexpended endowment income	295,792		295,792
Annuity and living trusts		168,332	168,332
Donor-restricted endowment funds		4,060,117	4,060,117
Board-designated endowment funds	1,484,150		1,484,150
Debt service funds	121,413		121,413
Invested in plant	1,177,519		1,177,519
Total	\$4,331,141	\$4,938,390	\$9,269,531

Notes to Consolidated Financial Statements

Note 13.

Functional Expenses:

Expenses are presented below by functional classification in accordance with the overall service mission of the university.

Each functional classification displays all expenses related to the underlying operations by natural classification.

Depreciation expense is allocated based on square footage occupancy. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Plant operations and maintenance represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy.

For the year ended June 30, 2019, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fundraising Activities	Year Ended June 30, 2019
Compensation	\$2,040,161	\$340,824	\$32,563	\$2,413,548
Fringe benefits	578,002	111,633	11,011	700,646
Operating expenses	1,100,015	858,153	14,865	1,973,033
Cost of goods sold	85,483	43,982		129,465
Travel	48,734	10,640	778	60,152
Settlement				
Allocations:				
Depreciation	188,348	91,127	1,684	281,159
Interest	21,239	43,085		64,324
Plant operations and maintenance	162,475	(165,365)	2,890	
Total	\$4,224,457	\$1,334,079	\$63,791	\$5,622,327

For the year ended June 30, 2018, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fundraising Activities	Year Ended June 30, 2018
Compensation	\$1,850,553	\$321,320	\$35,970	\$2,207,843
Fringe benefits	480,922	107,207	12,381	600,510
Operating expenses	1,086,780	390,897	14,336	1,492,013
Cost of goods sold	87,895	49,188		137,083
Travel	51,256	12,041	842	64,139
Settlement		215,000		215,000
Allocations:				
Depreciation	180,797	78,514	2,151	261,462
Interest	22,332	43,393		65,725
Plant operations and maintenance	170,212	(173,139)	2,927	
Total	\$3,930,747	\$1,044,421	\$68,607	\$5,043,775

Notes to Consolidated Financial Statements

Note 14.

Commitments and Contingencies:

Contractual commitments for educational plant amounted to approximately \$104,934,000 and \$132,631,000 at June 30, 2019 and 2018, respectively. It is expected that the resources to satisfy these commitments will be provided from certain unexpended plant net assets, anticipated contributions and/or debt proceeds.

During the year ended June 30, 2007, the university entered into an agreement with the County of Los Angeles to provide professional services at Los Angeles County+USC Medical Center. Under the terms of the agreement, the contract automatically renews on an annual basis unless either party gives four years' notice of the termination. To date, no such notice has been provided by either party.

The university is contingently liable as guarantor on certain obligations relating to equipment loans, student and parent loans, and various campus organizations.

The university has a broad portfolio of civil litigation, which reflects the complexity of the higher education environment and the diversity of issues facing universities today. Among other matters, these include lawsuits regarding the retirement plan, research and faculty recruitment, student disciplinary matters, athletic injuries, medical malpractice and employment litigation. In preparing these financial statements, management reviewed the entire litigation portfolio with the assistance of legal counsel and in accordance with ASC 450, Contingencies, and recorded a contingent liability on the consolidated balance sheets to properly account for the entire litigation portfolio.

Of note, during fiscal years ended June 30, 2018 and 2019 the university was named in civil lawsuits in state and federal court in connection with alleged misconduct by a physician who was previously employed by the university and practiced at the university student health center; this individual was alleged to have engaged in inappropriate conduct and made inappropriate statements to patients. On October 9, 2018, the university and the federal plaintiffs reached an agreement in principle for a federal class-action settlement of \$215 million, plus attorneys' fees not to exceed \$25 million. As of June 30, 2019 there have been no payments made in connection with the federal class-action settlement. The federal class-action settlement is currently being processed in accordance with the terms of the settlement and is expected to receive final approval by the court and related payments made during calendar 2020. For the years ended June 30, 2018 and 2019, the university has recorded a liability for the federal class-action settlement of \$215 million. The state court civil lawsuits have continued to proceed through the court process. There have been significant developments in related matters that could impact the civil litigation, including currently, approximately 800 cases have opted out of the federal class action settlement, criminal charges being filed against the physician who was previously employed by the student health center and the change in California state law that eliminated the statute of limitations for certain individuals potentially impacted.

Management has assessed the risk of loss related to the alleged misconduct above together with other litigation and for those matters deemed estimable and probable has accrued expenses included in operating expenses in the consolidated statement of activities. While the university expects that a significant portion of the settlement accrual and the liability will be covered by insurance, no insurance reimbursements for settlements have been received as of June 30, 2019, and there can be no guarantee of the ultimate amount of coverage. Subsequent to year end certain amounts have been received from insurance which have been considered in the recording of the contingent liability estimate at June 30, 2019. Amounts of future insurance reimbursements are unknown as of June 30, 2019, and as a result no insurance recovery accruals have been recorded in the 2018 and 2019 consolidated financial statements. The university recognizes that the ultimate outcome of these matters may be different than the estimates made in the consolidated financial statements as of and for the years ended June 30, 2019 and 2018, and those differences may be material to the university's financial position.

Note 15.

Grants and Contracts:

Executed contracts, grants, subcontracts and cooperative agreements for future sponsored research activity which are not reflected in the consolidated financial statements at June 30 are summarized as follows (in thousands):

	2019	2018
Current sponsored awards	\$780,063	\$764,272
Executed grants and contracts for future periods	1,414,199	1,192,476
Total	\$2,194,262	\$1,956,748

Notes to Consolidated Financial Statements

Note 16.

Related Parties:

Members of the Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the university. For senior management, the university requires annual disclosure of significant financial interest in entities doing business with the university. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the university. The university has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees can participate in any decision in which he or she or an immediate family member has a material financial interest. Each trustee is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the university does business with an entity in which a trustee has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring the recusal of the conflicted trustee and that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the university and in accordance with applicable conflict of interest laws.

Note 17.

Subsequent Events:

The university has performed an evaluation of subsequent events through December 16, 2019, which is the date the financial statements were issued.

In November 2019, the Lord Foundation of California, a non-profit foundation that supports the university, has received approximately \$262 million to fund research and teaching as a beneficiary of the recent sale of the North Carolina-based LORD Corporation.

Events Subsequent to Original Issuance of Financial Statements (Unaudited)

In connection with the reissuance of the financial statements, the university has evaluated subsequent events through April 24, 2020, the date the financial statements were reissued.

On February 4, 2020, the university issued \$320,000,000 of Series 2020A taxable bonds. These bonds bear interest at 3.23% and mature on October 1, 2120. The proceeds of the Series 2020A Bonds will be used by the university for its general corporate purposes, including, but not limited to, the acquisition, construction, renovation, improvement, rehabilitation and/or equipping by the university of higher educational and healthcare facilities, and to pay all or a portion of the costs of issuance of the Series 2020A Bonds.

On February 12, 2020, the university issued \$308,835,000 of Series 2020B taxable bonds. These bonds bear interest at 2.81% and mature on October 1, 2050. \$223,658,675 of the proceeds of the Series 2020B Bonds were irrevocably deposited into separate refunding escrow accounts in amounts that are sufficient to pay interest and principal for the CEFA Series 2009C, Series 2012A, Series 2015A and California Infrastructure Revenue Bonds Series 2010 (Soto) outstanding bonds. Any remaining bond proceeds after funding the aforementioned escrow accounts are intended for general corporate purposes including, but not limited, to the acquisition, construction, renovation, improvement, rehabilitation and/or equipping by the university of higher educational and healthcare facilities.

On March 20, 2020, the university initiated and drew down its revolving line of credit in the amount of \$500,000,000. This transaction was in preparation to meet any liquidity needs that may arise.

The outbreak of COVID-19 has caused domestic and global disruption in operations for institutions of higher education and health care providers. The outbreak has also negatively impacted both the global financial markets and the university's investments and may continue to do so. Other adverse consequences of COVID-19 or any other similar outbreaks in the future may include, but are not limited to, decline in enrollment, decline in demand for university housing, decline in demand for university programs that involve travel or that have international connections, and the rescheduling of elective or non-critical procedures (which the university believes is temporary and such procedures will be performed at a later date). We believe we have sufficient liquidity to meet our operating and financing needs; however, given the difficulty in predicting the ultimate duration and severity of the impact of the novel coronavirus on the university, the economy and the financial markets, the ultimate impact may be material.



Role and Mission of the University of Southern California

The central mission of the University of Southern California is the development of human beings and society as a whole through the cultivation and enrichment of the human mind and spirit. The principal means by which our mission is accomplished are teaching, research, artistic creation, professional practice and selected forms of public service.

Our first priority as faculty and staff is the education of our students, from freshmen to postdoctorals, through a broad array of academic, professional, extracurricular and athletic programs of the first rank. The integration of liberal and professional learning is one of USC's special strengths. We strive constantly for excellence in teaching knowledge and skills to our students, while at the same time helping them to acquire wisdom and insight, love of truth and beauty, moral discernment, understanding of self, and respect and appreciation for others.

Research of the highest quality by our faculty and students is fundamental to our mission. USC is one of a very small number of premier academic institutions in which research and teaching are inextricably intertwined, and on which the nation depends for a steady stream of new knowledge, art and technology. Our faculty are not simply teachers of the works of others, but active contributors to what is taught, thought and practiced throughout the world.

USC is pluralistic, welcoming outstanding men and women of every race, creed and background. We are a global institution in a global center, attracting more international students over the years than any other American university. And we are private, unfettered by political control, strongly committed to academic freedom, and proud of our entrepreneurial heritage.

An extraordinary closeness and willingness to help one another are evident among USC students, alumni, faculty, and staff; indeed, for those within its compass the Trojan Family is a genuinely supportive community. Alumni, trustees, volunteers and friends of USC are essential to this family tradition, providing generous financial support, participating in university governance, and assisting students at every turn. In our surrounding neighborhoods and around the globe, USC provides public leadership and public service in such diverse fields as health care, economic development, social welfare, scientific research, public policy and the arts. We also serve the public interest by being the largest private employer in the city of Los Angeles, as well as the city's largest export industry in the private sector.

USC has played a major role in the development of Southern California for more than a century, and plays an increasingly important role in the development of the nation and the world. We expect to continue to play these roles for many centuries to come. Thus our planning, commitments and fiscal policies are directed toward building quality and excellence in the long term.



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Page 4: Engemann Student Health Center.

Photo/Blake Marvin

Page 9: Los Angeles Memorial Coliseum
peristyle mural after restoration.

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Page 59: Iovine and Young Hall.

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Cover: Curious Metallics Ice White

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