2021 University of Southern California Financial Report

University of Southern California Financial Report 2021

Table of Contents

Message from the President

2021 was a year of transition for the world, the country, and our university.

After 17 months of remote instruction, USC successfully pivoted back to in-person learning and campus life. The safety protocols we put in place, which spanned testing, vaccination, face coverings, and contact tracing, enabled us to avoid large outbreaks among our students in classrooms and residence halls and among the thousands living near our campuses. Our Trojan community came together and rallied around the shared responsibility necessary to keep each other safe. I have no doubt that our successful return could not have happened without this collective effort.

This report provides insights into the university's financial health and, in particular, our ability to not only weather the storms of this pandemic but to flourish during one of the most uncertain periods American higher education has ever faced. The numbers also show that we continue to center the university's mission around students, with an expanding financial aid pool that allowed us to enroll even more low and middle-income Trojans.

The university, in partnership with its faculty and staff, continued to make investments in its curriculum and in innovative forms of course delivery that were needed to meet the challenges brought on by the pandemic. Here, again, the dedication of our faculty, staff, and students proved invaluable in keeping our university community focused on its academic mission.

We are also incredibly grateful for everything our health care enterprise has achieved, driven in large part by the resilience and dedication of our health care workers, who met and exceeded the needs of our patients while operating in some of the most difficult conditions imaginable.

We have made considerable progress towards our long-term priorities and will continue to focus on them as we move forward. Access and affordability remain at the heart of the university's mission, as does building a community where everyone feels they are a valued member of the Trojan Family. At the same time, we will continue making investments in sustainability, not only because it is the right thing to do for our planet and our community, but because it will ensure the university's long-term viability in an evolving world. Finally, we will continue to focus on the institution's financial health by employing a prudent and strategic approach to the university's resources and endowment.

I've been so impressed by the strength and resilience of our entire community over this past year. Although the pandemic is still with us, we have proven that by working together, the barriers it presents are not insurmountable. For more than 140 years, USC has championed the development of human beings and society as a whole through the cultivation and enrichment of the human mind and spirit. This ideal guides us more than ever.

Carol L. Folt
President

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

The Year in Review

While the global pandemic remains an ongoing concern, the University of Southern California has unceasingly managed each new challenge thanks in no small part to the tenacity and strength of our faculty, staff, students and community. By remaining flexible and providing strong financial stewardship over the university's expenditures, we successfully maintained an overall operating revenue equal to fiscal year 20 of $5.4 billion despite fiscal year 21's closed campus operations. Further, the university also had an increase in the health care services revenue of $231 million, a solid 11.3 percent increase compared to the previous year, as well as an increase of $13.9 million, a 5.3 percent increase, in the allocation of endowment spending over last year's activity. Overall, the university's fiscal year 20-21 financial results provide us with a reassuring foundation during an otherwise uncertain time.

Access and Affordability

Access and affordability remain two of the university's top priorities as our Trojan community becomes even more diverse and inclusive than ever before. That said, the university proudly maintains one of the most generous financial aid pools in the United States. To support the needs of our students and their families throughout this period of economic uncertainty, the university remained strong and continued to honor its long-time commitment to need-based funding. In fiscal year 21 alone, the university awarded over $30 million in additional financial aid to students; thereby, expanding the financial aid pool to over $671 million. These changes allow the university to further its mission to provide access to more students who come from low- and middle-income households in and out of state.

Students and Faculty

Due to the ongoing nature of COVID-19, helping our talented students meet their full potential continues to be our highest priority. In May 2021, the university began transitioning back to in-person activities, hosting 14 commencement ceremonies in seven days in order to ensure adherence to physical distancing and other safety protocols for our 15,000 graduates and their families.

Following this week-long celebration, the university began preparing for a full in-person return for the 2021-2022 academic year. Considerable investments were made in indoor ventilation and air filtration to ensure our buildings and facilities were fully prepared for the return of students, faculty and staff. The university also fortified its perimeter access points to prepare for full campus density.

Additionally, the university also seeks to ensure that its graduates are cognizant of the intractable social challenges the real-world poses. In doing so, our graduates will be prepared to face these social challenges with a sense of optimism, creativity and purpose that will inspire and better society.

Health Care Enterprise

We remain beyond proud of the work and bravery that our frontline workers continue to display during the ongoing, global pandemic. During fiscal year 21, Keck Medical Center of USC, which includes Keck Hospital of USC and USC Norris Cancer Center, was recognized by the U.S. News and World Report 2020-2021 as among the top hospitals in the country in 12 specialties, one of the top 3 hospitals in the Metro Los Angeles Area and one of the top 5 hospitals in all of California.

Our health care enterprise plays a central role in the life of the university. Despite the overall strain COVID-19 has imposed on the health care enterprise, health care service revenues grew by 11.3 percent to $2.3 billion in fiscal year 2021. Thanks to the hard work and determination of our entire health care team, the health care enterprise has met and exceeded the needs of the community and strives to remain the trusted leader in quality, personalized, compassionate and innovative health care it has always been.

Research

Research which is of the highest quality by university faculty and students is fundamental to the university's mission. USC researchers continue to conduct research that benefit all segments of society courtesy of its broadly diverse and inclusive research community.

Students at all levels are receiving experience, exposure and opportunities to access and use all of the university's research knowledge. This enables our students to grow themselves personally in addition to providing them the ability to contribute to society and the discipline itself with better research, studies and other discoveries made.

USC researchers continue to forge community partnerships, solve local and global challenges and create knowledge that can be used to benefit all of humanity. Although total fiscal year 21 annual research expenditures of $675 million (including indirect cost recoveries) were marginally lower than fiscal year 20, the university's current sponsored awards and executed grants for contracts for future periods are at an all-time high of $2.6 billion. It is a true testament to the university's research capabilities that USC's faculty members are winning research grants even as research funding grows more competitive, particularly among federal government agencies.

Technology

As a result of USC's strategic investments in information technology services in fiscal year 20, USC successfully went "live" with Workday Financial Management on July 1, 2021. Workday Financial Management provides an enterprise-wide, financial system that allows the university to streamline our processes while maintaining maximum control, to plan, forecast and analyze business transactions, and efficiently transform operational data for accounting to generate deeper financial insights.

Operating Results, Insurance Recoveries and Settlement

For the year ending June 30, 2021, USC experienced an operating deficit before insurance recoveries and settlement of $146 million. This operating loss would have been far greater without the support of the university community and managing costs through cuts in discretionary spending, a pause in new hires and merit increases, reduced capital spending and by generous voluntary salary cuts taken by senior leadership. Operating expenses before insurance recoveries and settlement for the year ending June 30, 2021, were $5.5 billion. Additionally, the university recognized $10 million in insurance recoveries for fiscal year 21 and set aside $450 million for the first installment payment related to a settlement agreement. Despite all of the challenges the university weathered in fiscal year 21, USC had an overall increase in net assets for the year ending June 30, 2021, of $1.9 billion, which is largely a result of endowment performance and continued generosity by our donors.

Looking Forward

Looking forward, we believe our fiscal year 20-21 financial results demonstrate USC's ability to withstand and flourish during an otherwise uncertain time.

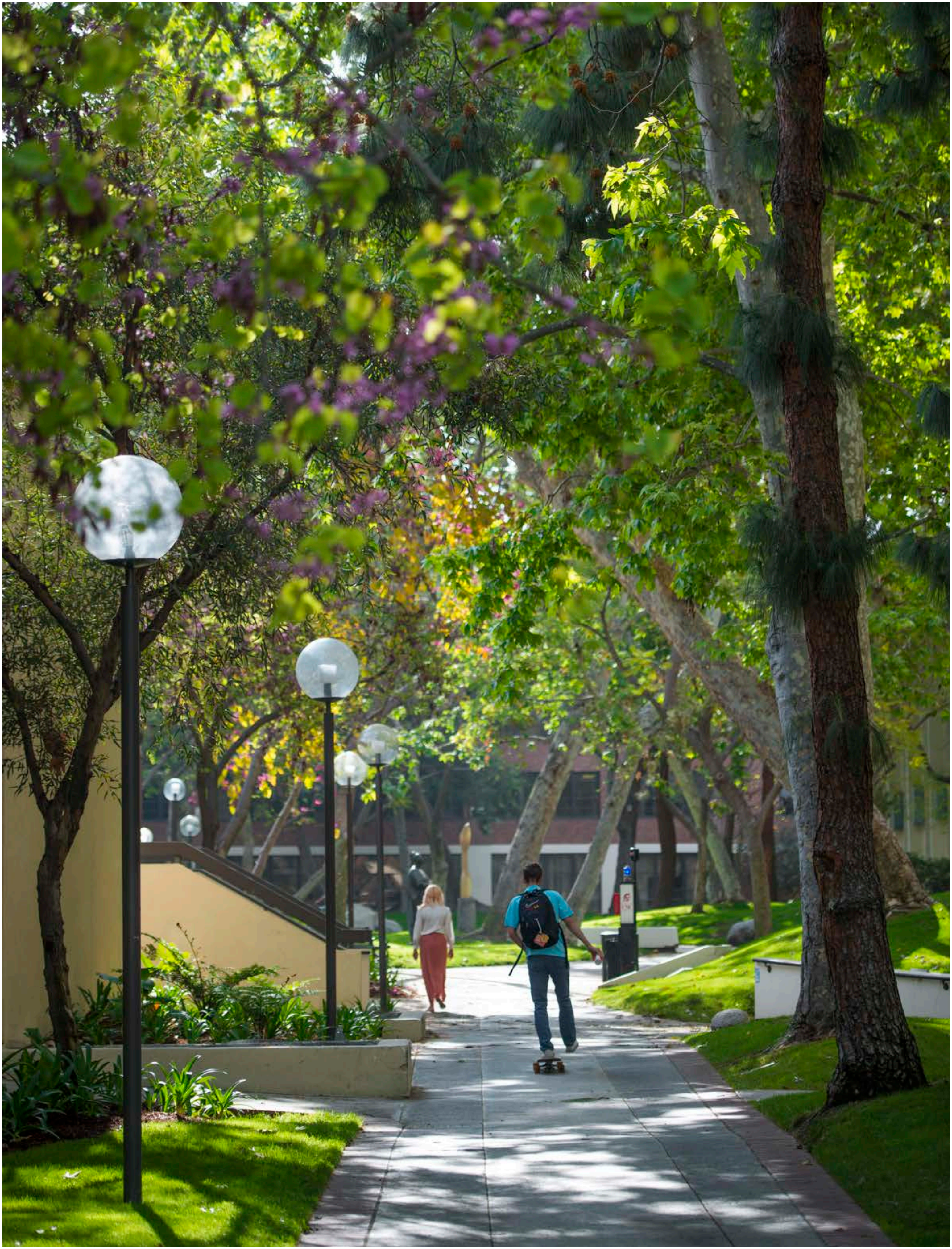
At USC, we abide by four pillars: free inquiry, an institutional commitment to the search for truth to be defended against any external or internal threat; the values of the Trojan Family, including caring and respect for one another as individuals, appreciation of diversity, team spirit, strong alumni networks, and a commitment to service; a commitment to informed risk taking within a culture of targeted experimentation that helps USC prepare for an uncertain future; and, a commitment to ethical conduct.

Our core values represent our legacy and destiny. While those values are enduring, every age presents new challenges that test our commitment. It's those challenges that present us with new opportunities to renew our values, meet the needs and desires of a new generation, and, ideally, continue to make the world a better place for generations to come.

Fight On!

James Staten

James Staten
Senior Vice President, Finance
and Chief Financial Officer



Fiscal Year Results

2021

Revenue

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

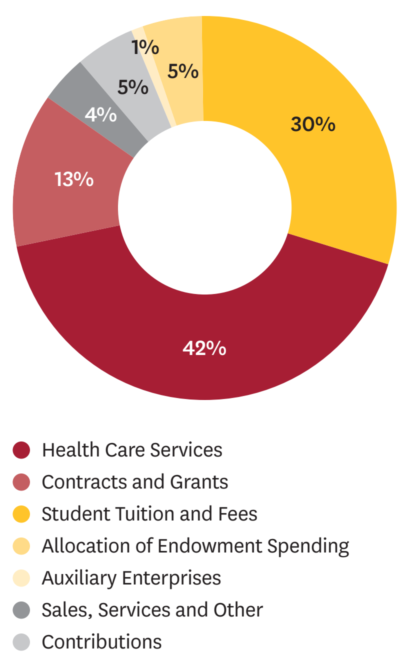
Student Tuition and Fees

Student tuition and fees decreased 2.5 percent from $1,621 million in 2020 to $1,581 million in 2021. Student tuition totaled $2,252 million in 2021, a decrease of 0.3 percent from $2,259 million in 2020. In accordance with generally accepted accounting principles, student tuition and fees are presented net of financial aid, which totaled $671 million and $638 million for 2021 and 2020, respectively. Student tuition and fees represented 30 percent of the university's operating revenues in 2021 and 2020.

During the 2021 academic year, 49,500 students were enrolled at the university; 21,000 were undergraduate students and 28,500 were pursuing graduate studies.

USC Operating Revenue

as of June 30, 2021

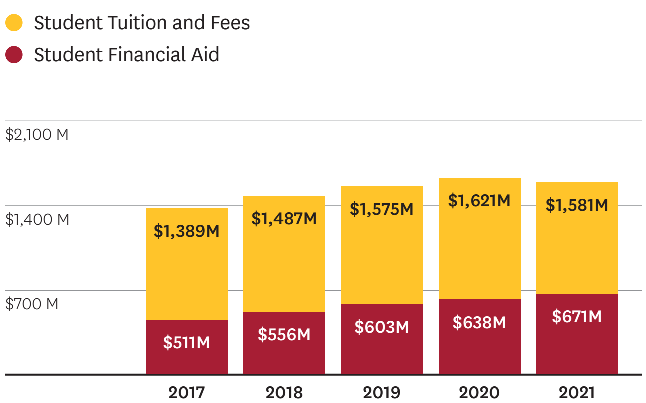


The total annual cost of attendance for 2020-2021 undergraduate students enrolled at USC was $79,063, which represents a 2.1 percent increase from the 2019-2020 annual undergraduate total cost of attendance of $77,459.

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 21 percent of the 2021 and 2020 entering first-year class received a merit-based scholarship from USC, and approximately two-thirds received some form of financial assistance.

USC Financial Aid



Health Care Services Revenue

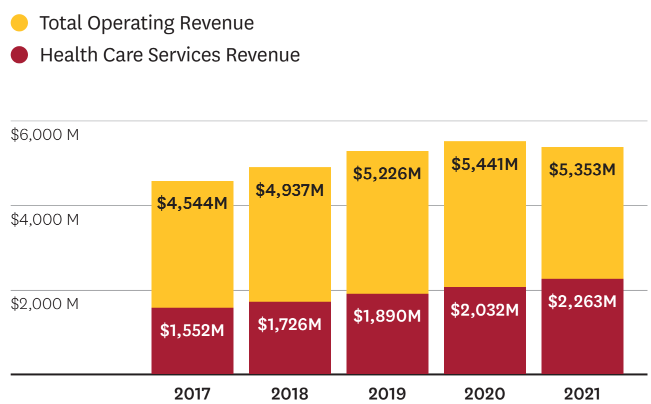
Health care services revenue totaled $2,263 million in fiscal year 2021, an increase of 11.4 percent from $2,032 million in 2020. Health care services revenue represents the largest revenue stream for the university at 42 percent of total operating revenue. The largest portion of this revenue stream, $2,093 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.

Keck Medical Center of USC which includes Keck Hospital of USC and USC Norris Cancer Hospital was ranked in 12 specialties by the U.S. News and World Report 2021-22 Best Hospitals. According to Moody's, "USC's healthcare operations are critical to USC's mission and strategic goals and currently accretive to credit quality."

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 and at 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 2021 and 2020. Despite the moratorium in January, ambulatory visits (including telehealth and diagnostics) continued to increase.

USC Health Care Services Revenue



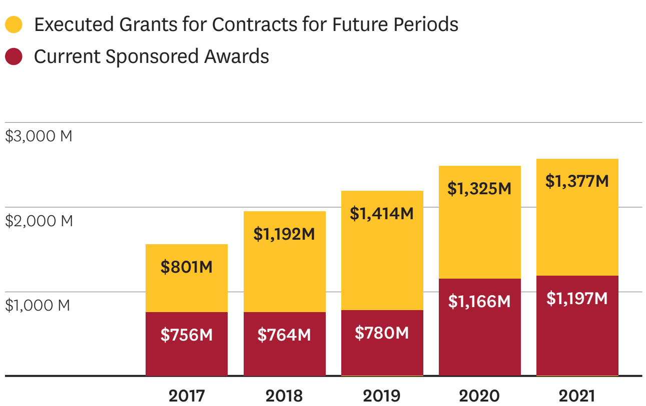
Contract and Grants Revenue

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.

Total annual research expenditures (including indirect cost recoveries) of the university decreased 3.4 percent from $699 million in 2020 to $675 million in 2021. The contracts and grants graphic below displays current sponsored awards and executed grants for contracts for future periods as presented in footnote 15 of the 2021 audited financial statements. Total contracts and grants have been steadily increasing since 2017, with a notable 2021 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.

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, as well as administrative and support costs incurred for sponsored activities. These reimbursements for facility and administrative costs amounted to $169 million in 2021 and $176 million in 2020, a decrease of 4 percent. 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.

USC Contract and Grant Awards



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, 2021 is $2,574 million an increase of 3.3 percent from 2020 of $2,491 million.

On March 27, 2020, the Federal Government passed the CARES Act (Coronavirus Aid, Relief, and Economic Stimulus Act). The CARES Act also established the Higher Education Emergency Relief Fund Act ("HEERF") to provide grant funds to higher education institutions to be used to provide financial assistance to students and for institutional purposes related to the pandemic. In fiscal year 2020, the university was awarded approximately $19.7 million in HEERF funds which have been fully distributed for student assistance in fiscal years 2020 and 2021.

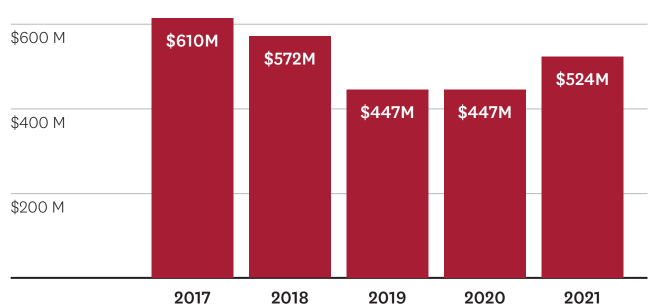
In December 2020, additional HEERF funding was authorized by Congress and the university has been allocated from this round of funding additional funds of approximately $9.6 million for student aid and approximately $20.3 million for institutional purposes. Under the most recent federal stimulus enacted in March 2021, the university has been allocated approximately $26.9 million of additional HEERF funds for student aid and approximately $26.9 million for institutional purposes. The university has recognized grant revenue as a result of the federal funding in the amount of $85.9 million and $9.6 million for the years ended June 30, 2021 and 2020, respectively. The unrecognized funds awarded of $7.6 million are contingent upon the university meeting the applicable requirements established by the terms and conditions of the awards.

Contribution Revenue

Contributions to the university provide necessary funding for current academic priorities, investment in the university's physical infrastructure, student support and provide 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 $524 million in 2021, an increase of 17.2 percent compared to 2020 contribution revenue of $447 million.

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 certain property (works of art) and certain portions of pledges whose full conditions have not yet been met (new buildings or improvements to existing buildings).

Auxiliary Enterprises Revenue

Auxiliary enterprises revenue totaled $51 million in fiscal year 2021, a decrease of 80 percent from 2020 revenue of $250 million, and represented 1 percent of the university's 2021 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. The decline in auxiliary enterprises revenue was a direct result of the limited campus activity due to COVID-19.

Sales, Services and Other Revenue

Sales and services revenue totaled $143 million in fiscal year 2021, a decrease of 16.4 percent from 2020 revenue of $171 million, and represented 4 percent of the university's 2021 operating revenue. Some of the major components of sales and services category include revenue from USC Pharmacies and student clinics, and the Norris Dental Science Center clinics and Oral Health Center.

Other revenue totaled $86 million in fiscal year 2021, a decrease of 29 percent from 2020 revenue of $121 million, and represented 1.6 percent of the university's 2021 operating revenue. The other revenue category includes revenue from USC Ticket Office sales, USC Radio Group and revenue from 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 $276 million in fiscal year 2021, an increase of 5.3 percent from 2020 revenue of $262 million, and represented 5.2 percent of the university's 2021 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 2021 results.

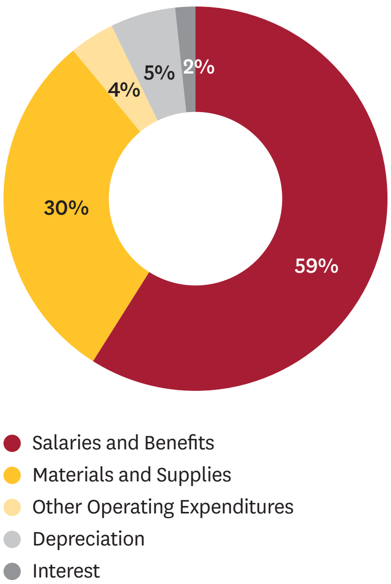
Expenses

Expenses before insurance recoveries and settlement totaled $5,499 million for 2021, representing a 1.4 percent increase from the 2020 operating expenses of $5,423 million. As noted in the "USC Expenses by Natural Classification" graphic below, salaries and benefits are the largest component of operating expenses, at approximately 59 percent of total expenses.

Since fiscal year 2018, the university has been named in multiple civil lawsuits in state and federal court, including a federal class action lawsuit, arising out of alleged misconduct by a gynecologist formerly employed by the university at its student health center from August 14, 1989 to June 21, 2016. On February 25, 2020, the court in the federal class action litigation issued final approval of a $215 million settlement, plus attorneys' fees. The parties subsequently agreed that the amount of the attorneys' fees should be $20 million, which the court approved on July 12, 2021. The university has now paid the $215 million settlement and $20 million in attorneys' fees. Approximately 804 individuals opted out of the federal class action settlement, and approximately 768 of these individuals filed lawsuits in state court. Approximately 58 of these individuals had their cases resolved through paid settlement or dismissal before March 25, 2021, when the university and the remaining 710 state court plaintiffs announced that they had reached a settlement agreement in the amount of $851.6 million. That settlement will be paid in two equal payments; the first was made in August 2021, and the second will be made by August 15, 2022. Pursuant to the settlement agreement, the university obtained a letter of credit in the amount of $421.2 million established in plaintiffs' favor. After the global settlement was reached with the state court plaintiffs, three individuals filed suit in Los Angeles Superior Court for damages based on alleged abuse by Dr. Tyndall and those cases are in the earliest stages of litigation.

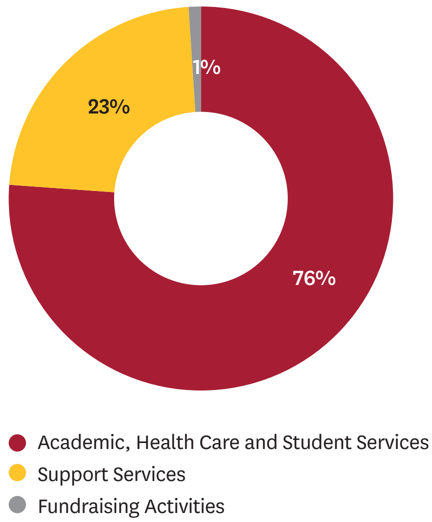
USC Expenses by Natural Classification

For period ending June 30, 2021



USC Expenses by Functional Classification

For period ending June 30, 2021



During the 2021 fiscal year, USC employed more than 4,706 faculty members, 16,614 staff members (including hospital and academic staff members) and 4,817 student workers as full-time equivalents. During the 2020 fiscal year, USC employed more than 4,604 faculty members, 16,313 staff members (including hospital and academic staff members) and 7,956 student workers as full-time equivalents.

Compensation costs of salaries and benefits were $3,241 million in 2021, a 2.2 percent decrease compared to compensation costs in 2020 of $3,313 million.

These costs include salary, pension, post-retirement health and insurance plan costs in addition to Social Security and other statutory benefits. With respect to consolidated expenses, operating expenses before insurance recoveries and settlement increased by 1.4 percent. Depreciation increased 3.3 percent and interest expense increased 29.6 percent compared to 2020.

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 76 percent of its resources on academic, health care and student services. Academic and student services represents 30 percent, health care services represents 38 percent and sponsored research represents 8 percent of spending. Health care activities and sponsored research are integral to the academic and learning experiences at USC.

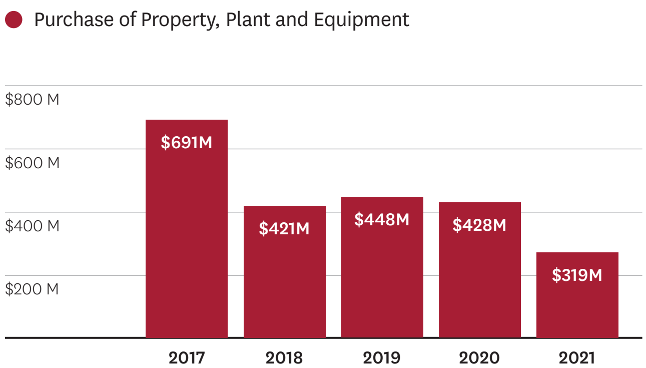
Physical Capital

Capital spending on facilities and infrastructure in fiscal year 2021 totaled $319 million, which represents a decrease in spending of 25.5 percent compared to 2020 capital spending of $428 million. In 2021, the university paused capital spending due to uncertainties related to the COVID-19 pandemic. The university continued with the implementation of Workday Financial Management and went "live" on July 1, 2021.

The university's outstanding debt and notes payable is approximately $2,441 million, excluding financing 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 2017.

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, 2021, net assets in the endowment totaled approximately $8,126 million, an increase of approximately $2.2 billion or 37 percent from the June 30, 2020, endowment balance of $5,914 million.

Investment Performance

For the fiscal year ending June 30, 2021, the endowment returned 43.2 percent. The venture capital programs had the largest outperformance of any investment program. During the last 10 years, the endowment earned 9.9 percent on an annualized basis, which compares favorably to a benchmark of 70 percent global stocks and 30 percent global bonds, which generated an 8.1 percent annualized return.

Endowment Spending

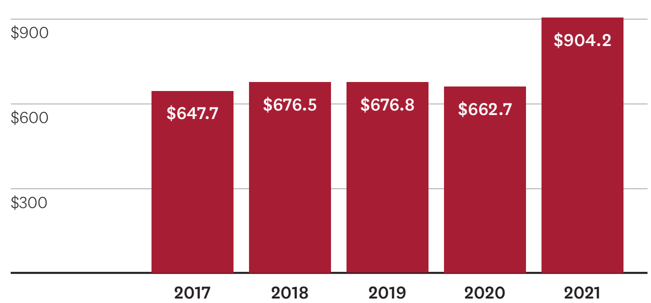
The endowment spending policy, which allocates endowment earnings to operations, balances the competing objectives of providing a stable flow of income and protecting the real value of the endowment over time. The spending policy manages the trade-off between these two objectives by using a long-term 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 2021 fiscal year, the Board of Trustees approved the current distribution of 103 percent of the prior year's payout, within a minimum of 4 percent and a maximum of 6 percent of the average market value for the previous 12 calendar quarters.

Under the provisions of the spending rule, $31.24 was distributed to each time-weighted unit for a total spending rule allocation of $276.2 million. Investment income amounting to $3.55 per time-weighted unit was earned, totaling $31.4 million, and $244.8 million was appropriated for current operations from cumulative gains of pooled investments.

Endowment pool earnings allocated for spending in fiscal year 2021 represent 3.62 percent of the market value of the endowment pools as of June 30, 2021.

USC Endowment Pool Market Value per Share

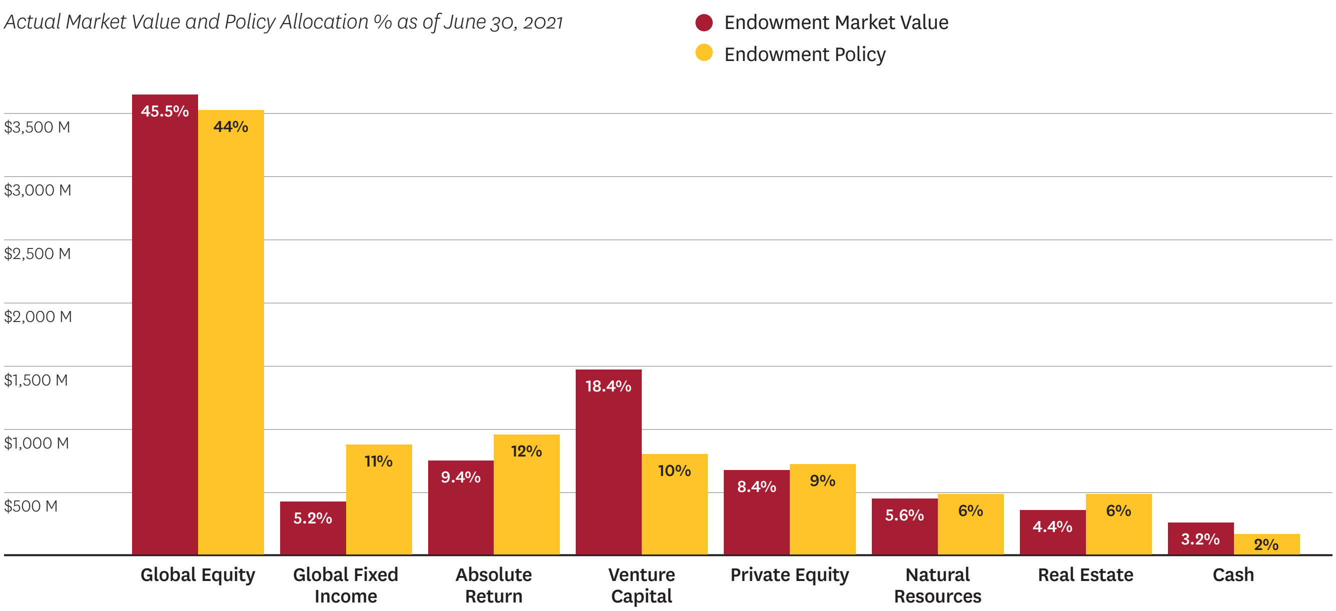


Asset Allocation

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, 2021. 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.

USC Endowment Pool

Actual Market Value and Policy Allocation % as of June 30, 2021



USC's global equity program includes investments in U.S., 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 10.3 percent 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 4.8 percent return annually.

USC's absolute return program is expected to generate uncorrelated excess returns. The program has succeeded in generating a positive 4.3 percent 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 26.8 percent annually over ten 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 ten-year return is 14.9 percent 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. In the ten years ending June 30, 2021, the program returned 1.0 percent 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 11.7 percent annualized return over ten 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.


USC

Report of Independent Auditors

To 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, 2021 and 2020, 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, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University changed the manner in which it accounts for leases in 2021. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

October 21, 2021

Consolidated Balance Sheets

in thousands

		June 30, 2021	June 30, 2020
	Assets		
1	Cash and cash equivalents	$1,075,383	$1,816,338
2	Accounts receivable, net	576,233	482,155
3	Notes receivable, net	46,949	55,642
4	Pledges receivable, net	377,926	439,888
5	Investments	9,486,609	6,816,264
6	Inventories, prepaid expenses and other assets	421,282	355,247
7	Right-of-use assets - operating leases	230,117	
8	Property, plant and equipment, net	4,498,491	4,529,893
9	**Total Assets**	**16,712,990**	**14,495,427**
	Liabilities		
10	Accounts payable	$256,613	$245,925
11	Accrued liabilities	1,798,636	1,567,833
12	Refundable advances	39,135	22,786
13	Deposits and deferred revenue	227,519	301,165
14	Revolving line of credit		500,000
15	Actuarial liability for annuities payable	99,712	92,834
16	Federal student loan funds	45,410	53,067
17	Asset retirement obligations	145,883	139,227
18	Operating lease obligations	239,100	
19	Finance lease obligations	82,609	77,545
20	Bonds and notes payable	2,441,248	2,042,413
21	Other liabilities	19,468	18,330
22	**Total Liabilities**	**5,395,333**	**5,061,125**
	Net Assets		
23	Without donor restrictions	4,600,715	4,360,865
24	With donor restrictions	6,716,942	5,073,437
25	**Total Net Assets**	**11,317,657**	**9,434,302**
26	**Total Liabilities and Net Assets**	**$16,712,990**	**$14,495,427**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Activities

in thousands

				Year Ended June 30, 2021	Year Ended June 30, 2020
	Operating	Without Donor Restrictions	With Donor Restrictions	Total Net Assets	Total Net Assets
	Revenues:				
1	Student tuition and fees	$1,580,621		$1,580,621	$1,620,730
2	Health care services	2,262,870		2,262,870	2,032,338
3	Contracts and grants	675,011		675,011	699,346
4	Auxiliary enterprises	50,794		50,794	249,787
5	Sales and services	143,206		143,206	170,922
6	Contributions	278,554		278,554	284,573
7	Other	85,872		85,872	120,766
8	Allocation of endowment spending	275,902		275,902	262,065
9	Total Revenues	5,352,830		5,352,830	5,440,527
10	Net assets released from restrictions	159,435	($159,435)		
11	**Total Revenues and Reclassifications**	**5,512,265**	**(159,435)**	**5,352,830**	**5,440,527**
	Expenses:				
12	Salaries and benefits	3,240,562		3,240,562	3,312,828
13	Operating expenses	1,867,776		1,867,776	1,748,051
14	Depreciation	306,782		306,782	296,943
15	Interest on indebtedness	84,128		84,128	64,892
16	**Total Expenses before Insurance recoveries and Settlement**	**5,499,248**		**5,499,248**	**5,422,714**
17	**Increase (decrease) in Net Assets from Operating Activities before Insurance Recoveries and Settlement**	**13,017**	**(159,435)**	**(146,418)**	**17,813**
18	Insurance recoveries (refer to Note 14)	10,000		10,000	108,500
19	**Increase (decrease) in Net Assets from Operating Activities before Settlement**	**23,017**	**(159,435)**	**(136,418)**	**126,313**
20	Settlement (refer to Note 14)	(450,000)		(450,000)	(100,000)
21	**(Decrease) Increase in Net Assets from Operating Activities**	**(426,983)**	**(159,435)**	**(586,418)**	**26,313**
	Non-operating				
22	Allocation of endowment spending to operations	(102,246)	(173,656)	(275,902)	(262,065)
23	Changes in funding status of defined benefit plan	18,471		18,471	(4,636)
24	Other components of net periodic benefits costs	(1,246)		(1,246)	(2,223)
25	Investment and endowment income	40,174	2,134	42,308	56,912
26	Net appreciation in fair value of investments	706,887	1,746,207	2,453,094	277,363
27	Contributions	4,793	240,598	245,391	162,343
28	Present value adjustment to annuities payable		(12,343)	(12,343)	8,490
29	Loss on bond refunding				(16,357)
30	**Increase in Net Assets from Non-operating Activities**	**666,833**	**1,802,940**	**2,469,773**	**219,827**
31	**Total increase in Net Assets**	**239,850**	**1,643,505**	**1,883,355**	**246,140**
32	Beginning Net Assets	4,360,865	5,073,437	9,434,302	9,188,162
33	**Ending Net Assets**	**$4,600,715**	**$6,716,942**	**$11,317,657**	**$9,434,302**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Activities

in thousands

		Year Ended June 30, 2020		
	Operating	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
	Revenues:			
1	Student tuition and fees	$1,620,730		$1,620,730
2	Health care services	2,032,338		2,032,338
3	Contracts and grants	699,346		699,346
4	Auxiliary enterprises	249,787		249,787
5	Sales and services	170,922		170,922
6	Contributions	284,573		284,573
7	Other	120,766		120,766
8	Allocation of endowment spending	262,065		262,065
9	Total Revenues	5,440,527		5,440,527
10	Net assets released from restrictions	95,207	($95,207)	
11	**Total Revenues and Reclassifications**	**5,535,734**	**(95,207)**	**5,440,527**
	Expenses:			
12	Salaries and benefits	3,312,828		3,312,828
13	Operating expenses	1,748,051		1,748,051
14	Depreciation	296,943		296,943
15	Interest on indebtedness	64,892		64,892
16	**Total Expenses before Insurance recoveries and Settlement**	**5,422,714**		**5,422,714**
17	**Increase (decrease) in Net Assets from Operating Activities before Insurance Recoveries and Settlement**	**113,020**	**(95,207)**	**17,813**
18	Insurance recoveries (refer to Note 14)	108,500		108,500
19	**Increase (decrease) in Net Assets from Operating Activities before Settlement**	**221,520**	**(95,207)**	**126,313**
20	Settlement (refer to note 14)	(100,000)		(100,000)
21	**Increase (decrease) in Net Assets from Operating Activities**	**121,520**	**(95,207)**	**26,313**
	Non-operating			
22	Allocation of endowment spending to operations	(103,414)	(158,651)	(262,065)
23	Changes in funding status of defined benefit plan	(4,636)		(4,636)
24	Other components of net periodic benefit cost	(2,223)		(2,223)
25	Investment and endowment income	56,455	457	56,912
26	Net appreciation in fair value of investments	25,306	252,057	277,363
27	Contributions	5,211	157,132	162,343
28	Present value adjustment to annuities payable		8,490	8,490
29	Loss on bond refunding	(16,357)		(16,357)
30	**(Decrease) increase in Net Assets from Non-operating Activities**	**(39,658)**	**259,485**	**219,827**
31	**Total increase in Net Assets**	**81,862**	**164,278**	**246,140**
32	Beginning Net Assets	4,279,003	4,909,159	9,188,162
33	**Ending Net Assets**	**$4,360,865**	**$5,073,437**	**$9,434,302**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

in thousands

		Year Ended June 30, 2021	Year Ended June 30, 2020
	Cash Flows from Operating Activities		
1	**Change in Net Assets**	**$1,883,355**	**$246,140**
	Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
2	Depreciation	306,782	296,943
3	Loss (gain) on the disposal/sale of plant assets	45,130	(230)
4	In-kind receipt of property, plant and equipment	(213)	(532)
5	Present value adjustment to annuities payable	12,294	(8,270)
6	Loss on bond refunding		16,357
7	Contributions received for property, plant and equipment and permanent investment	(204,132)	(100,544)
8	Net realized gain on sale of investments	(566,354)	(506,536)
9	Net unrealized (appreciation) depreciation in investments	(1,887,118)	229,265
10	Increase in accounts receivable	(94,078)	(10,444)
11	Decrease in pledges receivable	61,962	22,441
12	Increase in inventories, prepaid expenses and other assets	(98,211)	(42,186)
13	Increase (decrease) in accounts payable	16,243	(67,149)
14	Increase in accrued liabilities	276,816	326,629
15	Increase in refundable advances	16,349	1,309
16	(Decrease) increase in deposits and deferred revenue	(73,646)	44,099
17	Increase in other liabilities	10,122	11,638
18	**Net Cash (used in) provided by Operating Activities**	**(294,699)**	**458,930**
	Cash Flows from Investing Activities		
19	Proceeds from note collections	11,623	12,378
20	Notes issued	(2,763)	(6,436)
21	Proceeds from sale and maturity of investments	3,864,419	6,576,709
22	Purchase of investments	(4,090,736)	(6,823,883)
23	Purchase of property, plant and equipment	(319,194)	(428,208)
24	**Net Cash (used in) Investing Activities**	**(536,651)**	**(669,440)**
	Cash Flows from Financing Activities		
	Contributions recieved for long term investment:		
25	Endowment	109,641	76,234
26	Plant	94,601	22,846
27	Trusts and other	(110)	1,464
28	Repayment of finance lease obligation	(664)	
29	Repayment of long-term debt		(1,540)
30	Revolving line of credit	(500,000)	500,000
31	Proceeds from issuance of long-term debt	400,000	403,812
32	Decrease in federal student loan funds	(7,657)	(14,869)
33	Change in annuities payable	3,643	6,153
34	Payment on annuities payable	(10,788)	(11,380)
35	Increase to annuities payable resulting from new contributions	1,729	1,889
36	**Net Cash provided by Financing Activities**	**90,395**	**984,609**
37	**Net (decrese) increase in Cash and Cash equivalents**	**(740,955)**	**774,099**
38	Cash and Cash equivalents at beginning of year	1,816,338	1,042,239
39	**Cash and Cash equivalents at end of year**	**$1,075,383**	**$1,816,338**

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, comparable documents, or d) time restrictions.

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, present value adjustment to annuities payable, gain/losses on extinguishment of debt, 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. Cash equivalents that are part of the university's investment portfolio are reported as investments and included in Note 6.

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 - Unadjusted 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.

Notes to Consolidated Financial Statements

Note 1. (continued)

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 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, 2021 and 2020, 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 net realizable value.

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 long-lived assets directly in net assets without donor restrictions, when the asset is placed in service.

The university determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The university determines these assets are leased because the university has the right to obtain substantially all of the economic benefit from and the right to direct the use of the identified asset. The university determines lease classification as operating or finance at the lease commencement date. Operating leases as a lessee are included in right-of-use assets-operating leases and operating lease obligations in the consolidated balance sheets. Finance leases as a lessee are included in property, plant, and equipment and finance lease obligations in the consolidated balance sheets. Right-of-use assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. For operating leases, the right-of-use asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. For the initial and subsequent measurement of all lease liabilities, the discount rate is based on the rate implied within the lease or is based on the university's incremental borrowing rate using a period comparable with the lease term. The lease term will include options to extend or to terminate the lease that the university is reasonably certain to exercise. Operating lease expense is recognized on a straight-line basis over the lease term. Interest expense is recognized as a component of the lease payment for finance leases. The university's lease agreements do not contain any material residual value guarantees or restrictive covenants. Rental income arising from operating leases as a lessor is included in operating revenue within 'Other' revenues in the consolidated statement of activities.

The university's split interest agreements with donors consist primarily of gift annuities, unitrusts, pooled income funds and life estates. For irrevocable agreements where the university is the trustee, 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 consolidated financial statements.

The University self-insures at varying levels for unemployment, disability, workers' compensation, property losses, certain healthcare plans, cyber liability, medical malpractice professional liability, and certain ancillary and personal lines of coverage; and obtains coverage through a captive insurance company for general liability, auto liability, directors and officers liability, employment practices liability, educator legal liability, fiduciary liability, sexual molestation liability, neurodegenerative injury liability, and certain litigation defense responsibilities. Insurance is purchased to cover liabilities above self-insurance limits. Where appropriate, estimates of retained exposures are reserved and accrued.

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

Notes to Consolidated Financial Statements

Note 1. (continued)

rate applicable to the university in order to determine the fair value of the conditional asset retirement obligations. For the years ended June 30, 2021 and 2020, the university recognized accretion expense related to conditional asset retirement obligations of approximately $7,194,000 and $6,889,000, respectively. For the years ended June 30, 2021 and 2020, the university settled asset retirement obligations of approximately $744,000 and $903,000, respectively. As of June 30, 2021, and 2020, included in the consolidated balance sheets are asset retirement obligations of $145,883,000 and $139,227,000, 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"), as displayed in the consolidated statements of activities in "Student 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.

Financial aid for the year ended June 30, 2021, which is included in student tuition and fees on the consolidated statement of activities, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	$368,084	$191,073	$559,157
Endowed scholarships	37,831	19,638	57,469
External financial aid	36,121	18,751	54,872
Total	**$442,036**	**$229,462**	**$671,498**

Financial aid for the year ended June 30, 2020, which is included in student tuition and fees on the consolidated statement of activities, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	$358,183	$189,885	$548,068
Endowed scholarships	35,442	18,789	54,231
External financial aid	23,316	12,360	35,676
Total	**$416,941**	**$221,034**	**$637,975**

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 stand alone 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 deposits and deferred revenue 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 deposits and deferred revenue.

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. For the years ended June 30, 2021 and 2020, the university recognized approximately $136,000,000 and $140,000,000 of private contracts and grants revenue in contributions on the consolidated statements of activities.

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

Notes to Consolidated Financial Statements

Note 1. (continued)

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.

Unconditional 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. The presence of both a performance barrier and a right of return make a contribution conditional. Conditional promises to give are not recognized until specified obligations or barriers, such as milestones or performance targets, are met.

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 restrictions 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.

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 System"). Healthcare 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 Health System 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 includes 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 revenue, although the patient benefits over time from the university, is also recognized at a point in time as the services are provided to the patient on the same day. 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 stand-alone transaction price. Transportation revenue is recognized at a point in time and satisfied within the fiscal year. 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

Notes to Consolidated Financial Statements

Note 1. (continued)

the fiscal year, and any season ticket sales that occur in advance of the next fiscal year are recognized as deferred revenue.

In January 2020, the World Health Organization determined that the novel strain of coronavirus ("COVID-19") constitutes a Public Health Emergency of International Concern. The COVID-19 pandemic has caused a disruption to the nation's healthcare system. Such disruption includes reduction in availability of staffing and reductions in the availability of personal protective equipment to prevent spread of the disease during patient treatment. During the initial stages of the COVID-19 outbreak in March 2020, and for several months thereafter, elective procedures at Keck Medicine were postponed in accordance with government mandates and guidelines in order to prepare for the increased volume of COVID-19 patients and reduce the risk of exposure to COVID-19. Keck Medicine continues to monitor developments and the directives of federal, state and local officials to determine what ongoing precautions, procedures, and protocols need to be followed. On March 27, 2020, the Federal Government passed the CARES Act (Coronavirus Aid, Relief, and Economic Stimulus Act), which allotted $175 billion dollars to healthcare providers and suppliers through Medicare reimbursements, grants and other direct federal payments. As of June 30, 2020, Keck Medicine received and recognized $90.8 million from the Department of Health & Human Services ("HHS") CARES Act: Provider Relief Fund within "contracts and grants revenue" on USC's consolidated statements of activities. In August 2020, Keck Medicine received an additional $6.4 million of CARES Act: Provider Relief Funds. In December 2020, HHS issued new reporting requirements and an additional $3 billion in funding was approved for future distributions. Due to the evolving nature of the guidance provided by the government, there is a reasonable possibility that amounts recorded under CARES Act provider relief funding by Keck Medicine may change in future periods. In addition, Keck Medicine received $192.9 million of advanced payments from the Centers for Medicare and Medicaid Services ("CMS") under the Accelerated and Advance Payments Program, which is recorded as accrued liabilities on USC's consolidated balance sheet as of June 30, 2020. As of June 30, 2021, $170.2 million remains in accrued liabilities on the consolidated balance sheet. In October 2020, Congress gave hospitals and other providers that received Medicare Accelerated and Advance Payments one year from when the first loan payment was made to begin making recoupments. It is not clear whether these provisions and the increased funding to hospitals will be adequate to cover the significant costs borne by hospitals treating patients with COVID-19 or the shortfall in revenues that is anticipated from reductions in elective and other procedures during the COVID-19 outbreak.

The CARES Act also established the Higher Education Emergency Relief Fund Act ("HEERF") to provide grant funds to higher education institutions to be used to provide financial assistance to students and for institutional purposes related to the pandemic. In fiscal year 2020, the university was awarded approximately $19.7 million in HEERF Funds which have been fully distributed for student assistance in fiscal years 2020 and 2021. In December 2020, additional HEERF funding was authorized by Congress and the university has been allocated from this round of funding additional funds of approximately $9.6 million for student aid and approximately $20.3 million for institutional purposes. Under the most recent federal stimulus enacted in March 2021, the university has been allocated approximately $26.9 million of additional HEERF funds for student aid and approximately $26.9 million for institutional purposes. The university has recognized grant revenue as a result of the federal funding in the amount of $85.9 million and $9.6 million for the years ended June 30, 2021 and 2020, respectively. The unrecognized funds awarded of $7.6 million are contingent upon the university meeting the applicable requirements established by the terms and conditions of the awards.

Furthermore, the CARES Act allowed employers to defer the deposits and payments of the employer's share of Social Security taxes. As of June 30, 2021 and 2020, $50.0 million and $30.2 million, respectively, was deferred and recorded within "accrued liabilities" on the consolidated balance sheet.

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. On the statement of activities for fiscal year ended June 30, 2020, the university reclassified $100 million from operating expenses to settlement. This amount is in connection with the litigation settlement discussed within Note 14.

Recent Accounting Pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the consolidated balance sheets. This ASU is effective for annual reporting periods beginning after December 15, 2019. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented, or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted. The university adopted Topic 842 on July 1, 2020 (the effective date). Prior period amounts have not been adjusted in connection with the adoption of this standard. As part of this adoption, the university elected the 'package of practical expedients', an option which permits it to not reassess prior conclusions about (i) lease identification, (ii) lease classification and (iii) initial direct costs under the new standard. The university also elected the 'hindsight practical expedient' to determine the lease term for existing leases, which permits entities to consider available information prior to the effective date of the new guidance as to the actual or likely exercise of options to extend or terminate the lease. Additionally, the university elected not to record leases with an initial term of 12 months or less on the consolidated balance sheet. Furthermore, the university has lease agreements with non-lease components that relate to the lease components. The university elected the practical expedient to account for non-lease components and lease components combined for housing arrangements in which the university is a lessor. For all other leases, the university will continue to account for non-lease components and lease components separately. Additional information, including qualitative and quantitative disclosures, is included in Note 9. Leases.

Notes to Consolidated Financial Statements

Note 1. (continued)

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 university adopted ASU 2018-13 for the fiscal year ended June 30, 2021. Adoption did not have a material impact on the university's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15 — *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. The ASU is effective for the university on July 1, 2021. The university is currently evaluating the effect of adoption to the financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects) of reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The amendments are elective and are effective for all entities as of March 12, 2020 through December 31, 2022. The university is currently evaluating the potential impact of adoption to the 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, 2021	Year Ended June 30, 2020
Total assets at year end	$16,712,990	$14,495,427
Less:		
Notes receivable due in more than one year	(7,320)	(7,954)
Pledges receivable due in more than one year or otherwise purpose restricted	(344,515)	(357,804)
Donor-restricted endowment funds	(6,065,543)	(4,408,725)
Board-designated endowment funds	(2,060,679)	(1,505,633)
Annuities and living trusts	(193,415)	(165,533)
Inventories, prepaid expenses and other assets	(198,582)	(156,127)
Right-of-use assets, operating leases	(230,117)	
Property, plant and equipment , net	(4,498,491)	(4,529,893)
Financial assets available at year end for current use	**$3,114,328**	**$3,363,758**

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 2021 and 2020, the Board of Trustees approved current distribution of 103% 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 2021 and 2020, the Board of Trustees approved an endowment pool payout of $31.24 a share and $30.33 a share respectively, for a total spending rule allocation of $276,239,000 and $261,989,000. As described in Note 6, the university also has unfunded commitments on alternative investments totaling $1,073,306,000 and $796,831,000 for fiscal year 2021 and 2020.

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 drew down $500,000,000 from the revolving line of credit. Furthermore, the university has a board-designated endowment of $2,060,679,000 as of June 30, 2021. 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):

	2021	2020
U.S. Government	$32,997	$39,516
Student and other, net of allowance for doubtful accounts of $29,757 (2021), $20,457 (2020)	166,555	197,709
Patient care	376,681	244,930
Total	**$576,233**	**$482,155**

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, 2021, consist of the following (in thousands):

	June 30, 2021		
	Financing Receivables, Gross	Allowance for Doubtful Accounts	Net
Perkins loans	$24,656		$24,656
University student loans	5,591	($1,659)	3,932
Other student loans	18,361		18,361
Total student loans	**48,608**	**(1,659)**	**46,949**
Faculty and other loans	24,521		24,521
Total	**$73,129**	**($1,659)**	**$71,470**

Long-term financing receivables as of June 30, 2020, consist of the following (in thousands):

	June 30, 2020		
	Financing Receivables, Gross	Allowance for Doubtful Accounts	Net
Perkins loans	$31,170		$31,170
University student loans	6,724	($1,937)	4,787
Other student loans	19,685		19,685
Total student loans	**57,579**	**(1,937)**	**55,642**
Faculty and other loans	25,095		25,095
Total	**$82,674**	**($1,937)**	**$80,737**

Notes to Consolidated Financial Statements

Note 4. (continued)

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.

The following table illustrates the aging analysis of receivables as of June 30, 2021 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	$889	$164	$4,898	$18,705	$24,656
University student loans	234	7	2,836	2,514	5,591
Other student loans	126		209	18,026	18,361
Total student loans	**1,249**	**171**	**7,943**	**39,245**	**48,608**
Faculty and other loans				24,521	24,521
Total	**$1,249**	**$171**	**$7,943**	**$63,766**	**$73,129**

The following table illustrates the aging analysis of receivables as of June 30, 2020 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	$1,022	$248	$5,391	$24,509	$31,170
University student loans	153	24	3,285	3,262	6,724
Other student loans	35		216	19,434	19,685
Total student loans	**1,210**	**272**	**8,892**	**47,205**	**57,579**
Faculty and other loans				25,095	25,095
Total	**$1,210**	**$272**	**$8,892**	**$72,300**	**$82,674**

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, 2021 and 2020, 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 that are included within accounts receivable on the consolidated balance sheet amounting to $24,521,000 and $25,095,000 were outstanding as of June 30, 2021 and 2020, 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, 2021, and 2020 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):

	2021	2020
Less than one year	$113,886	$103,525
One to five years	249,385	302,876
More than five years	109,360	143,381
Less: discount	(47,640)	(58,895)
Less: allowance	(47,065)	(50,999)
Total	**$377,926**	**$439,888**

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

	2021	2020
Endowment for departmental programs and activities	$179,006	$191,060
Endowment for scholarship	22,694	26,477
Building construction	72,792	98,917
Departmental programs and activities	103,434	123,434
Total	**$377,926**	**$439,888**

At June 30, 2021 and 2020, conditional pledges not reflected in the consolidated financial statements, which consist primarily of promises to give with barriers to entitlement, were $23,830,000 and $272,607,000, respectively. When conditional promises to give become unconditional, they are recorded as revenues.

Notes to Consolidated Financial Statements

Note 6.

Investments:

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

	2021	2020
Equities	$2,847,295	$2,153,449
Fixed income securities	1,806,483	1,638,549
Alternative investments:		
Hedge funds	1,729,034	1,202,078
Private capital	2,561,694	1,392,974
Real estate and other	383,223	290,763
Assets held by other trustees	158,880	138,451
Total	**$9,486,609**	**$6,816,264**

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, 2021 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	$2,359,408	$327	$15,403	$472,157	$2,847,295
Fixed income securities	273,739	1,518,481	14,263		1,806,483
Hedge funds				1,729,034	1,729,034
Private capital				2,561,694	2,561,694
Real estate and other			30,365	352,858	383,223
Assets held by other trustees			158,880		158,880
Total	**$2,633,147**	**$1,518,808**	**$218,911**	**$5,115,743**	**$9,486,609**

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, 2020 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	$2,051,233	$494	$15,403	$86,319	$2,153,449
Fixed income securities	424,597	1,196,799	17,153		1,638,549
Hedge funds				1,202,078	1,202,078
Private capital				1,392,974	1,392,974
Real estate and other			30,567	260,196	290,763
Assets held by other trustees			138,451		138,451
Total	**$2,475,830**	**$1,197,293**	**$201,574**	**$2,941,567**	**$6,816,264**

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, 2021 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments:								
Equities	$15,403							$15,403
Fixed income securities	17,153	$4,651	$(8,681)	$(24)	$1,164			14,263
Real estate and other	30,567		(177)	(2)	(27)	$3		30,364
Assets held by other trustees	138,451		(1,542)	(662)	22,634			158,881
Total	**$201,574**	**$4,651**	**($10,400)**	**($688)**	**$23,771**	**$3**	**$0**	**$218,911**

The following table summarized the university's Level III reconciliation of investments for the year ended June 30, 2020 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments:								
Equities	$94,425		($261,452)	$182,439			($9)	$15,403
Fixed income securities	24,464	$8,188	(14,262)	(810)	($427)			17,153
Real estate and other	30,566		(245)	(40)	286			30,567
Assets held by other trustees	148,177		(1,638)	(170)	(7,918)			138,451
Total	**$297,632**	**$8,188**	**($277,597)**	**$181,419**	**($8,059)**	**$0**	**($9)**	**$201,574**

Certain Level III assets totaling $204,648,000 and $184,421,000 as of June 30, 2021, and June 30, 2020, respectively, have been valued using unadjusted third-party quotations. The primary unobservable inputs for Level III fixed income securities, which are mainly term loans, are the applicable yield rates which range from 1.9%-8.1% and applicable term lives ranging from 3-17 years. The weighted average yield rate is 3.7% and the weighted average term life is 7.5 years.

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, 2021 and 2020, was $2,495,402,000 and $334,275,000, respectively.

Note 6. (continued)

The following table lists investments by major category, measured using the NAV practical expedient, for the year ending June 30, 2021 (in thousands):

At June 30, 2021

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	$5,848	$6,261	Approximately 1 Year	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	1,729,034	68,216	98.6% of NAV has an open ended life and 1.4% of NAV will be liquidated on an undetermined basis.	Ranges between quarterly redemption with up to 185 days notice, semiannual redemption with up to 90 days notice, annual redemption with up to 90 days notice, biannual redemption with 90 days notice; lock ups can be up to 5 years.	14% of NAV is locked up for 3 months, 22% of NAV is locked up for 6 months, 9% of NAV is locked up for 9 months, 18% of NAV is locked-up for 1 year, 23% of NAV is locked for 2 years, 10% of NAV is locked-up for 3 years and 4% is locked up for more than 3 years.
Natural Resources Partnerships	U.S. and Non-U.S. Investments in Upstream, Midstream and Downstream Natural Resources Investments	444,863	157,630	Approximately 3 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	2,110,983	501,764	Approximately 4 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	352,741	339,435	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	472,157	Not Applicable	Open Ended	Minimum Monthly	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	117	Not Applicable	Open Ended	Monthly	None
Total		**$5,115,743**	**$1,073,306**			

Notes to Consolidated Financial Statements

Note 6. (continued)

The following table lists investments by major category, measured using the NAV practical expedient, for the year ending June 30, 2020 (in thousands):

At June 30, 2020

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	$6,192	$12,903	Approximately 1 Year	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	1,202,078	78,368	98.3% of NAV has an open-ended life and 1.7% of NAV will be liquidated on an undetermined basis.	Ranges between bimonthly redemption with 120 days notice, quarterly redemption with up to 185 days notice, semiannual redemption with up to 90 days notice, annual redemption with up to 90 days notice, biannual redemption with 90 days notice and 5 year lockup with 90 days notice.	0.1% of NAV is locked-up for 1 month, 15.1% of NAV is locked-up for 3 months, 14.0% of NAV is locked-up 6 months, 13.1% on NAV is locked-up for 9 months, 16.9% of NAV is locked-up for 1 year and 40.8% 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	342,149	155,189	Approximately 3 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	1,044,633	301,203	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	260,079	249,168	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	86,319	Not Applicable	Open Ended	Minimum monthly	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	117	Not Applicable	Open Ended	Monthly	None
Total		$2,941,567	$796,831			

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 similar purposes as endowment as determined on an annual basis. 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, 2021 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	$1,957,653	$5,737,019	$7,694,672
Non-pooled	103,026	328,524	431,550
Total	**$2,060,679**	**$6,065,543**	**$8,126,222**

Donor-restricted and board-designated endowment funds are summarized as follows for the year ended June 30, 2020 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	$1,413,415	$4,091,783	$5,505,198
Non-pooled	92,218	316,942	409,160
Total	**$1,505,633**	**$4,408,725**	**$5,914,358**

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, 2021 and 2020, the pool is comprised of cash and cash equivalents (1.82%) and (2.33%), equities (55.60%) and (56.42%), fixed income securities (5.86%) and (12.58%), alternative investments (32.31%) and (24.16%) and real estate and other investments (4.41%) and (4.51%), 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, 2021 and 2020, was $904.15 and $662.69, 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.

Note 7. (continued)

Endowment net asset composition by type of funds as of June 30, 2021 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		$6,065,543	$6,065,543
Board-designated endowment funds	$2,060,679		2,060,679
Total	**$2,060,679**	**$6,065,543**	**$8,126,222**

Endowment net asset composition by type of funds as of June 30, 2020 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		$4,408,725	$4,408,725
Board-designated endowment funds	$1,505,633		1,505,633
Total	**$1,505,633**	**$4,408,725**	**$5,914,358**

Changes in endowment net assets for the year ended June 30, 2021 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2020	$1,505,633	$4,408,725	$5,914,358
Total investment return, net	638,561	1,694,166	2,332,727
Contributions and transfers	18,731	136,308	155,039
Appropriation of endowment assets for expenditure	(102,246)	(173,656)	(275,902)
Endowment net assets at June 30, 2021	**$2,060,679**	**$6,065,543**	**$8,126,222**

Changes in endowment net assets for the year ended June 30, 2020 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2019	$1,517,217	$4,222,348	$5,739,565
Total investment return, net	69,240	260,340	329,580
Contributions and transfers	22,590	84,688	107,278
Appropriation of endowment assets for expenditure	(103,414)	(158,651)	(262,065)
Endowment net assets at June 30, 2020	**$1,505,633**	**$4,408,725**	**$5,914,358**

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):

	2021	2020
Restricted for scholarship support	$1,363,970	$988,152
Restricted for faculty support	1,338,324	965,655
Restricted for program support	3,363,249	2,454,918
Total endowment assets with donor restrictions	**$6,065,543**	**$4,408,725**

Note 7. (continued)

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 $272,284,000 and a current fair value of $271,548,000 with a deficiency of $735,000 and an original value of $160,837,000 and a current fair value of $158,254,000 and a deficiency of $2,583,000 as of June 30, 2021 and 2020, 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 6.6% 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.

For the 2021 fiscal year, the Board of Trustees approved current distribution of 103% 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, $31.24 was distributed to each time-weighted unit for a total spending rule allocation of $276,239,000. Investment income amounting to $3.55 per time-weighted unit was earned, totaling $31,414,000, and $244,825,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2021 represent 3.62% of the market value of the endowment pool at June 30, 2021.

For the 2020 fiscal year, the Board of Trustees approved current distribution of 103% 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, $30.33 was distributed to each time-weighted unit for a total spending rule allocation of $261,989,000. Investment income amounting to $4.41 per time-weighted unit was earned, totaling $38,059,000, and $223,930,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2020 represent 4.76% of the market value of the endowment pool at June 30, 2020.

Note 8.

Property, Plant and Equipment:

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

	2021	2020
Land and improvements	$209,031	$207,608
Buildings and improvements	5,905,466	5,822,617
Buildings and equipment under finance leases	69,731	65,822
Equipment	866,405	775,976
Library books and collections	465,941	444,005
Construction-in-progress	383,268	335,747
	7,899,842	**7,651,775**
Less: Accumulated depreciation	3,401,351	3,121,882
Total	**$4,498,491**	**$4,529,893**

Note 9.

Leases:

The university is committed to minimum annual lease payments under several long-term non-cancellable operating and finance leases for equipment, buildings and office space expiring at various dates through 2111.

The university has entered into the following lease arrangements:

Finance Leases

These leases mainly consist of various equipment leases and a lease 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 and the university has assumed that all options will be exercised. Under the terms of both lease agreements for the Coliseum, the university is required to make certain capital improvements.

Operating Leases

The university has various equipment, vehicle and real estate leases for office space and housing that expire in various years through 2061. These leases generally contain renewal options for periods ranging from 2 years to 10 years and require the university to pay all executory costs (property taxes, maintenance, and insurance). The university is not reasonably certain the renewal options will be exercised and has not included them in the terms. Space leases contain customary escalation clauses, which are included in annual aggregate minimum rentals. Total operating lease expense for the years ending June 30, 2021 and 2020 was $51,416,000 and $48,688,000, respectively.

Short-Term Leases

The university has certain leases that are for a period of 12 months or less or contain renewals for periods of 12 months or less. The university does not include short-term leases within the balance sheet since it has elected the practical expedient to exclude these leases from right-of-use assets - operating leases and operating lease obligations. Total short-term lease expense included in operating expenses for the year ending June 30, 2021 was $633,000.

Operating Leases - Lessor

The university has various leases in which it is the lessor. The university leases to others portions of certain buildings owned for retail, office, and medical office purposes. Leases are generally ten-year terms or less and are classified as operating leases. These leasing arrangements are not material to the consolidated financial statements.

The components of lease expense for the year ended June 30, are as follows (in thousands):

	2021
Lease Expense	
Finance lease expense	
Amortization of right-of-use assets	$1,776
Interest on lease liabilities	3,414
Operating lease expense	51,416
Short-term lease expense	633
Variable lease expense	(408)
Total	**$56,830**

Note 9. (continued)

The components of lease expense for the year ended June 30, are as follows (in thousands):

	2021
Other Information	
Cash paid for amounts included in the measurement of lease liabilities	
Finance - Financing cash flows	$664
Finance - Operating cash flows	$1,595
Operating - Operating cash flows	$49,647
Right-of-use assets obtained in the exchange for lease liabilities	
Finance leases	$3,909
Operating leases	$54,713
Weighted-average remaining lease term	
Finance leases	86.4 years
Operating leases	7.6 years
Weighted-average discount rate	
Finance leases	4.4%
Operating leases	1.4%

Future aggregate minimum lease payments as of June 30, 2021 under finance and operating leases are as follows (in thousands):

Future minimum lease payments:	Finance	Operating
2022	$2,621	$51,319
2023	2,667	41,917
2024	2,527	34,462
2025	2,549	29,054
2026	2,213	24,233
Thereafter	660,677	75,370
	673,254	**256,355**
Less: amounts representing interest	(590,646)	(17,255)
Present value of net minimum lease payments	**$82,609**	**$239,100**

Future minimum lease payments at June 30, 2020, prior to the university's adoption of Topic 842, are as follows:

Future minimum rental payments:	Capital	Operating
2021	$1,685	$52,358
2022	1,730	51,691
2023	1,775	43,780
2024	1,823	38,507
2025	1,872	35,400
Thereafter	662,599	186,606
	671,484	**408,342**
Less: amounts representing interest	(593,939)	
Total	**$77,545**	**$408,342**

The university entered into a lease agreement for a 101,000 square feet medical office building. The lease is a 34-year term with five, five-year options to extend, with the estimated lease commencement date of October 2023. The university has the right of first offer years six through 17 and the right to purchase the building at fair market value years 18 through 20. The university is obligated to extend an interim loan not to exceed $21,000,000 to the lessor and provide a completion guaranty if required in connection with a $101,000,000 construction loan to be arranged by the university for the lessor. On July 23, 2021, the university extended a loan of $15,000,000 to the lessor at five percent per annum. The university has a commitment to pay minimum lease payments of $327,470,000 through the initial 34-year term.

Note 10.

Bonds Payable and Line of credit:

Bonds payable and line of credit outstanding as of June 30 (in thousands):

	Interest %	Maturity	2021	2020
University of Southern California Bonds:				
Series 2011 Taxable	5.25	2112	$300,000	$300,000
Discount			(2,424)	(2,451)
Series 2016 Taxable	3.03	2040	722,580	722,580
Discount			(2,919)	(3,078)
Series 2017 Taxable	3.84	2048	402,320	402,320
Discount			(1,565)	(1,623)
Series 2020A Taxable	3.23	2121	320,000	320,000
Discount			(2,772)	(2,823)
Series 2020B Taxable	2.81	2051	308,835	308,835
Discount			(1,302)	(1,347)
Series 2021A Taxable	2.95	2052	400,000	
Discount			(1,505)	
Line of Credit				
Revolving Line of Credit	Variable	2021		500,000
			2,441,248	2,542,413
Less: current portion of long-term debt				500,000
Total			$2,441,248	$2,042,413

Principal payment requirements relating to bonds and notes payable, after giving effect to refunding, for the next five fiscal years are approximately: 2022 $0; 2023 $0; 2024 $0; 2025 $0; 2026 $0, thereafter $2,453,735,000.

Interest payments for fiscal year 2021 and 2020 were $74,880,000 and $67,520,000, respectively.

On February 4, 2020, the university issued $320,000,000 of Series 2020A taxable bonds. On February 12, 2020, the university issued $308,835,000 of Series 2020B taxable bonds. $223,659,000 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. The related proceeds and repayment of the defeased bonds are considered non-cash financing activities and are not reflected in the consolidated statements of cashflow. The remaining proceeds of these 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.

On April 14, 2021, the university issued $400,000,000 of Series 2021A taxable bonds. The bonds mature on October 1, 2051 and are unsecured general obligations of the university. The university will use the proceeds of the bonds 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 the cost of issuance of the bonds.

The university has a revolving line of credit with a bank with a maturity date of November 30, 2025. The committed size of the revolving line of credit is $500,000,000. The line of credit accrues interest based on LIBOR and contains a fee on the unused portion. 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. The university was in compliance with these covenants during fiscal years ending June 30, 2021 and 2020. On March 20, 2020 the university drew down $500,000,000 on the bank line of credit for general corporate purposes, and the balance was repaid in full on April 26, 2021.

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 (frozen July 2007), Fidelity Investments and Prudential Financial (frozen April 2016). 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. USC paused the non-elective contribution to all employees in calendar year 2021. Newly hired employees on or after January 1, 2012, have the university non-elective contribution subject to a four-year vesting schedule. Employees hired on or after January 1, 2019, are subject to a one year waiting period counted under the lapsed time method. Benefits commence at age 59 1/2, termination of employment or retirement. Pre-retirement survivor death benefits are also provided. Charges to operating expenses for the university's share of costs were approximately $140,698,000 and $186,888,000 during the years ended June 30, 2021 and 2020, respectively.

Retirement benefits for employees of USC Verdugo Hills Hospital, Las Vegas Culinary Health Center 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, Las Vegas 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.

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	2021	2020
Benefit obligation at end of prior year	$172,817	$148,165
Interest cost	4,966	5,372
Actuarial (gain) loss	(1,662)	20,659
Benefits paid	(1,987)	(1,379)
	$174,134	**$172,817**

Change in Plan Assets	2021	2020
Fair value of plan assets at the end of prior year	$144,465	$126,672
Actual return on plan assets	20,529	17,913
Employer contribution		
Annuity purchase for plan participants		1,260)
Benefits paid	(1,987)	(1,379)
	$163,007	**$144,466**

Notes to Consolidated Financial Statements

Note 11. (continued)

Reconciliation of Funded Status	2021	2020
Accumulated benefit obligation at end of year	($174,134)	($172,817)
Projected benefit obligation at end of year	(174,134)	(172,817)
Fair value of plan assets at end of year	163,007	144,466
Funded status	**($11,127)**	**($28,351)**

Components of Net Periodic Benefit Cost	2021	2020
Interest cost	$4,966	$5,372
Expected return on plan assets	(7,574)	(6,661)
Amortization of net loss	3,854	3,512
Total benefit cost	**$1,246**	**$2,223**

Amounts recognized in the Statement of Financial Position	2021	2020
Accrued liabilities	($11,127)	($28,351)

Amounts not yet recognized as components of Net Periodic Benefit Cost	2021	2020
Net Loss	$34,384	$52,855

Changes in the net reduction to Without Donor Restrictions	2021	2020
Net (gain) loss	($14,617)	$8,148
Amortization of net loss (gain)	(3,854)	(3,512)
Total benefit cost	**($18,471)**	**$4,636**

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 is $1,900,000 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, and thereby transferring the responsibility for payment of the pension benefits to the insurance company. 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 prorata portion of the net actuarial loss was recognized in expense, resulting in additional pension expense during fiscal 2019 of $33,781,181.

Note 11. (continued)

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

	2021	2020
Discount rate	2.90%	3.65%
Expected return on plan assets	5.30%	5.30%
Rate of compensation increase	N/A	N/A

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

	2021	2020
Discount rate	3.00%	2.90%
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 30% equity securities and 70% 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, 2021, 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		$78			$78
Equity securities		47,238			47,238
Fixed income securities		115,691			115,691
Total		**$163,007**			**$163,007**

Notes to Consolidated Financial Statements

Note 11. (continued)

At June 30, 2020, 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		$1,320			$1,320
Equity securities		57,160			57,160
Fixed income securities		85,986			85,986
Total		**$144,466**			**$144,466**

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, 2021	Target at June 30, 2021	Actual at June 30, 2020	Target at June 30, 2020
Short-term investment fund	0.0 %	0.0%	1.0 %	0.0%
Equity securities	29.0 %	30.0%	40.0 %	40.0%
Fixed income securities	71.0 %	70.0%	59.0 %	60.0%
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, 2021 or 2020. 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	
2022	$3,984
2023	4,765
2024	5,506
2025	6,210
2026	6,865
2027-2031	41,711

Note 12.

Net Assets:

The university's net assets as of June 30, 2021, includes the following (in thousands):

	Year Ended June 30, 2021		
Nature of Specific Net Assets	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
Undesignated	$828,540		$828,540
Donor-restricted		$80,058	80,058
Pledges		377,926	377,926
Unexpended endowment income	355,275		355,275
Annuity and living trusts		193,415	193,415
Donor-restricted endowment funds		6,065,543	6,065,543
Board-designated endowment funds	2,060,679		2,060,679
Debt service funds	126,407		126,407
Invested in plant	1,229,814		1,229,814
Total	**$4,600,715**	**$6,716,942**	**$11,317,657**

The university's net assets as of June 30, 2020, includes the following (in thousands):

	Year Ended June 30, 2020		
Nature of Specific Net Assets	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
Undesignated	$1,120,119		$1,120,119
Donor-restricted		$59,291	59,291
Pledges		439,888	439,888
Unexpended endowment income	327,914		327,914
Annuity and living trusts		165,533	165,533
Donor-restricted endowment funds		4,408,725	4,408,725
Board-designated endowment funds	1,505,633		1,505,633
Debt service funds	128,646		128,646
Invested in plant	1,278,553		1,278,553
Total	**$4,360,865**	**$5,073,437**	**$9,434,302**

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, 2021, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fundraising Activities	Year Ended June 30, 2021
Compensation	$2,221,167	$329,696	$32,784	$2,583,647
Fringe benefits	535,995	110,961	11,205	658,161
Operating expenses	1,270,776	476,537	8,264	1,755,577
Cost of goods sold	88,204	17,266		105,470
Travel	1,944	4,761	24	6,729
Settlement		450,000		450,000
Allocations:				
Depreciation	209,887	95,146	1,749	306,782
Interest	29,016	55,112		84,128
Plant operations and maintenance	172,505	(175,107)	2,602	
Total	**$4,529,494**	**$1,364,372**	**$56,628**	**$5,950,494**

For the year ended June 30, 2020, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fundraising Activities	Year Ended June 30, 2020
Compensation	$2,225,842	$359,546	$34,136	$2,619,524
Fringe benefits	569,656	114,667	11,204	695,527
Operating expenses	1,111,219	462,802	13,493	1,587,514
Cost of goods sold	80,009	32,355		112,364
Travel	38,354	9,146	673	48,173
Settlement		100,000		100,000
Allocations:				
Depreciation	200,727	94,369	1,847	296,943
Interest	21,785	43,107		64,892
Plant operations and maintenance	165,169	(167,999)	2,830	
Total	**$4,412,761**	**$1,047,993**	**$64,183**	**$5,524,937**

Notes to Consolidated Financial Statements

Note 14.

Commitments and Contingencies:

Contractual commitments for educational plant amounted to approximately $58,121,000 and $75,743,000 at June 30, 2021 and 2020, 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, 2019, 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 non-renewal. To date, no such notice has been provided by either party. On May 7, 2021, the County sent the university a notice of materials breach of the agreement and a request for a corrective action plan. The university submitted a response and corrective action plan on June 18, 2021.

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 and campus safety matters, athletic injuries, personal injuries, inappropriate touching, late fees, dental and 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.

Since fiscal year 2018, the university has been named in multiple civil lawsuits in state and federal court, including a federal class action lawsuit, arising out of alleged misconduct by a gynecologist formerly employed by the university at its student health center from August 14, 1989 to June 21, 2016. On February 25, 2020, the court in the federal class action litigation issued final approval of a $215 million settlement, plus attorneys' fees. The parties subsequently agreed that the amount of the attorneys' fees should be $20 million, which the court approved on July 12, 2021. The university has now paid the $215 million settlement and $20 million in attorneys' fees. Approximately 804 individuals opted out of the federal class action settlement, and approximately 768 of these individuals filed lawsuits in state court. Approximately 58 of these individuals had their cases resolved through paid settlement or dismissal before March 25, 2021, when the university and the remaining 710 state court plaintiffs announced that they had reached a settlement agreement in the amount of $851.6 million. That settlement will be paid in two equal payments; the first was made in August 2021, and the second will be made by August 15, 2022. Pursuant to the settlement agreement, the university obtained a letter of credit in the amount of $421.2 million established in plaintiffs' favor. After the global settlement was reached with the state court plaintiffs, three individuals filed suit in Los Angeles Superior Court for damages based on alleged abuse by Dr. Tyndall and those cases are in the earliest stages of litigation. On February 21, 2020, USC entered into a Resolution Agreement with the U.S. Department of Education Office of Civil Rights, which had opened an investigation into Title IX compliance regarding the employment and conduct of this physician.

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 settlements in the consolidated statements of activities. In the fiscal year ended June 30, 2021, the university recovered $10 million in indemnity payments from the university's insurers in connection with this litigation. In the fiscal year ended June 30, 2020, the university recovered $108.5 million in indemnity payments from the university's insurers in connection with this litigation. While the university continues to expect that an additional portion of the settlement accrual and the liability will be covered by insurance, there can be no guarantee of the ultimate amount of coverage. Amounts of future insurance reimbursements are unknown as of June 30, 2021, and as a result no insurance recovery accruals have been recorded in the 2020 and 2021 consolidated financial statements.

During the fiscal year ended June 30, 2020, the university was named in civil putative class action lawsuits that assert various legal claims seeking a partial refund of tuition and fees as a result of the university's campus closure and transition to remote instruction in response to COVID-19 starting midway through the Spring 2020 semester and continuing to the present. Although the outcome of this litigation is difficult to predict, the university believes it has strong defenses to these lawsuits and has not recorded any liabilities in relation to these lawsuits at this time.

Notes to Consolidated Financial Statements

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):

	2021	2020
Current sponsored awards	$1,197,127	$1,165,773
Executed grants and contracts for future periods	1,376,406	1,325,318
Total	**$2,573,533**	**$2,491,091**

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:

In October 2021, the USC Health System and Methodist Hospital of Southern California ("MHSC") signed an affiliation agreement to expand access to care. The Affiliation is structured as a member substitution in which the USC Health System became the sole corporate member of MHSC. In connection with the affiliation agreement, the lease between the City of Arcadia and MHSC will be transferred to and assumed by the USC Health System and extended for a term of 99 years.

The university has performed an evaluation of subsequent events through October 21, 2021, which is the date the financial statements were issued.

Role and Mission of the University

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.

University of Southern California Leadership

Officers and Executives

Carol L. Folt
President

Charles F. Zukoski
Provost and Senior Vice President for Academic Affairs

Monique S. Allard
Interim Vice President for Student Affairs

Mike Bohn
Director of Athletics

Amy Diamond
Chief Investment Officer

Samuel Garrison
Senior Vice President, University Relations

Rodney B. Hanners
CEO of Keck Medicine of USC and President and CEO of USC Health System

Kyle Henley
Senior Vice President of Communications

Beong-Soo Kim
Senior Vice President and General Counsel

Christopher Manning
Chief Inclusion and Diversity Officer

Ishwar K. Puri
Vice President of Research

Steven D. Shapiro
Senior Vice President for Health Affairs

James M. Staten
Senior Vice President, Finance, and Chief Financial Officer

Tracey L. Vranich
Interim Senior Vice President for University Advancement

Felicia A. Washington
Senior Vice President of Human Resources

David W. Wright
Senior Vice President, Administration

Rene Pak
Chief of Staff

Academic Deans

Anthony Bailey
USC Bovard College

Willow Bay
USC Annenberg School for Communication and Journalism

Pinchas Cohen
USC Leonard Davis School of Gerontology

Milton S. F. Curry
USC School of Architecture

Robert A. Cutietta
USC Thornton School of Music
USC Glorya Kaufman School of Dance

Elizabeth M. Daley
USC School of Cinematic Arts

Geoffrey Garrett
USC Marshall School of Business

Sarah Gehlert
USC Suzanne Dworak-Peck School of Social Work

Dana Goldman
USC Sol Price School of Public Policy

Andrew T. Guzman
USC Gould School of Law

William W. Holder
USC Leventhal School of Accounting

Haven Lin-Kirk
USC Roski School of Art and Design

Carolyn C. Meltzer
Keck School of Medicine of USC

Amber Miller
USC Dornsife College of Letters, Arts and Sciences

Pedro Noguera
USC Rossier School of Education

Vassilios Papadopoulos
USC School of Pharmacy

Catherine Quinlan
USC Libraries

Thanassis Rikakis
USC Iovine and Young Academy

Emily Roxworthy
USC School of Dramatic Arts

Avishai Sadan
Herman Ostrow School of Dentistry of USC

Yannis C. Yortsos
USC Viterbi School of Engineering

Credits:

Page 4: USC Photo Collection

Page 7: Chris Shinn,
USC Photo Collection

Page 15: Michael Owen Baker,
USC Photo Collection

Page 49: Gus Ruelas,
USC Photo Collection