



Consolidated Financial Statements  
For the Years Ended  
June 30, 2020 and 2019



## **Report of Independent Auditors**

To the Board of Trustees of the University of Southern California

We have audited the accompanying consolidated financial statements of the University of Southern California and its subsidiaries (collectively the "University"), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, 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, 2020 and 2019, 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

November 23, 2020

# Consolidated Balance Sheets

*in thousands*

	June 30, 2020	June 30, 2019
<b>Assets</b>		
1 Cash and cash equivalents	\$1,816,338	\$1,042,239
2 Accounts receivable, net	482,155	471,711
3 Notes receivable, net	55,642	61,066
4 Pledges receivable, net	439,888	462,329
5 Investments	6,816,264	6,351,236
6 Inventories, prepaid expenses and other assets	355,247	386,941
7 Property, plant and equipment, net	4,529,893	4,363,842
<b>8 Total Assets</b>	<b>\$14,495,427</b>	<b>\$13,139,364</b>
<b>Liabilities</b>		
9 Accounts payable	\$245,925	\$285,359
10 Accrued liabilities	1,567,833	1,373,097
11 Refundable advances	22,786	21,477
12 Deposits and deferred revenue	301,165	257,066
13 Revolving line of credit	500,000	-
14 Actuarial liability for annuities payable	92,834	104,442
15 Federal student loan funds	53,067	67,936
16 Asset retirement obligations	139,227	132,918
17 Capital lease obligations	77,545	75,869
18 Bonds and notes payable	2,042,413	1,626,346
19 Other liabilities	18,330	6,692
<b>20 Total Liabilities</b>	<b>5,061,125</b>	<b>3,951,202</b>
<b>Net Assets</b>		
21 Without donor restrictions	4,360,865	4,279,003
22 With donor restrictions	5,073,437	4,909,159
<b>23 Total Net Assets</b>	<b>9,434,302</b>	<b>9,188,162</b>
<b>24 Total Liabilities and Net Assets</b>	<b>\$14,495,427</b>	<b>\$13,139,364</b>

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

# Consolidated Statements of Activities

in thousands

			Year Ended June 30, 2020	Year Ended June 30, 2019
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets	Total Net Assets
<b>Operating</b>				
<b>Revenues:</b>				
1 Net student tuition and fees	\$1,620,730		\$1,620,730	\$1,575,446
2 Health care services	2,032,338		2,032,338	1,890,318
3 Contracts and grants	699,346		699,346	571,059
4 Auxiliary enterprises	249,787		249,787	372,584
5 Sales and services	170,922		170,922	157,850
6 Contributions	284,573		284,573	273,875
7 Other	120,766		120,766	139,619
8 Allocation of endowment spending	262,065		262,065	245,579
9 Total Revenues	5,440,527		5,440,527	5,226,330
10 Net assets released from restrictions	95,207	(\$95,207)		
11 Total Revenues and Reclassifications	5,535,734	(95,207)	5,440,527	5,226,330
<b>Expenses:</b>				
12 Salaries and benefits	3,312,828		3,312,828	3,078,232
13 Operating expenses	1,848,051		1,848,051	2,162,650
14 Depreciation	296,943		296,943	281,159
15 Interest on indebtedness	64,892		64,892	64,324
16 Total Expenses before Insurance recoveries	5,522,714		5,522,714	5,586,365
<b>Increase (decrease) in Net Assets from Operating Activities before Insurance recoveries</b>				
17 Insurance recoveries	13,020	(95,207)	(82,187)	(360,035)
18 Insurance recoveries (refer to Note 14)	108,500		108,500	
19 Increase (decrease) in Net Assets from Operating Activities	121,520	(95,207)	26,313	(360,035)
<b>Non-operating</b>				
20 Allocation of endowment spending to operations	(103,414)	(158,651)	(262,065)	(245,579)
21 Changes in funding status of defined benefit plan	(4,636)		(4,636)	13,165
22 Other components of net periodic benefit costs	(2,223)		(2,223)	(35,962)
23 Investment and endowment income	56,455	457	56,912	88,892
24 Net appreciation in fair value of investments	25,306	252,057	277,363	215,501
25 Contributions	5,211	157,132	162,343	172,887
26 Present value adjustment to annuities payable		8,490	8,490	9,181
27 Loss on bond refunding	(16,357)		(16,357)	
28 (Decrease) increase in Net Assets from Non-operating Activities	(39,658)	259,485	219,827	218,085
29 Total increase in Net Assets	81,862	164,278	246,140	(141,950)
30 Beginning Net Assets	4,279,003	4,909,159	9,188,162	9,269,531
31 Cumulative effect of accounting change				60,581
32 Beginning Net Assets as restated				9,330,112
33 Ending Net Assets	\$4,360,865	\$5,073,437	\$9,434,302	\$9,188,162

# Consolidated Statements of Activities

in thousands

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
<b>Operating</b>			
<b>Revenues:</b>			
1 Net student tuition and fees	\$1,575,446		\$1,575,446
2 Health care services	1,890,318		1,890,318
3 Contracts and grants	571,059		571,059
4 Auxiliary enterprises	372,584		372,584
5 Sales and services	157,850		157,850
6 Contributions	273,875		273,875
7 Other	139,619		139,619
8 Allocation of endowment spending	245,579		245,579
9 Total Revenues	5,226,330		5,226,330
10 Net assets released from restrictions	228,859	(\$228,859)	
11 <b>Total Revenues and Reclassifications</b>	<b>5,455,189</b>	<b>(228,859)</b>	<b>5,226,330</b>
<b>Expenses:</b>			
12 Salaries and benefits	3,078,232		3,078,232
13 Operating expenses	2,162,650		2,162,650
14 Depreciation	281,159		281,159
15 Interest on indebtedness	64,324		64,324
16 <b>Total Expenses</b>	<b>5,586,365</b>		<b>5,586,365</b>
17 <b>Decrease in Net Assets from Operating Activities</b>	<b>(131,176)</b>	<b>(228,859)</b>	<b>(360,035)</b>
<b>Non-operating</b>			
18 Allocation of endowment spending to operations	(112,895)	(132,684)	(245,579)
19 Changes in funding status of defined benefit plan	13,165		13,165
20 Other components of net periodic benefit cost	(35,962)		(35,962)
21 Investment and endowment income	88,343	549	88,892
22 Net appreciation in fair value of investments	59,833	155,668	215,501
23 Contributions	5,973	166,914	172,887
24 Present value adjustment to annuities payable		9,181	9,181
25 <b>Increase in Net Assets from Non-operating Activities</b>	<b>18,457</b>	<b>199,628</b>	<b>218,085</b>
26 <b>Total decrease in Net Assets</b>	<b>(112,719)</b>	<b>(29,231)</b>	<b>(141,950)</b>
27 Beginning Net Assets	4,331,141	4,938,390	9,269,531
28 Cumulative effect of accounting change	60,581		60,581
29 Beginning Net Assets, as restated	4,391,722	4,938,390	9,330,112
30 <b>Ending Net Assets</b>	<b>\$4,279,003</b>	<b>\$4,909,159</b>	<b>\$9,188,162</b>

# Consolidated Statements of Cash Flows

in thousands

<b>1</b>	<b>Change in Net Assets</b>	<b>\$246,140</b>	<b>(\$81,369)</b>
	Adjustments to reconcile change in net assets to net cash provided by operating activities:		
<b>2</b>	Depreciation	296,943	281,159
<b>3</b>	(Gain) loss on the disposal/sale of plant assets	(230)	248
<b>4</b>	In-kind receipt of property, plant and equipment	(532)	(4,797)
<b>5</b>	Present value adjustment to annuities payable	(8,270)	(9,003)
<b>6</b>	Increase in accounts receivable	(10,444)	(10,660)
<b>7</b>	Increase in pledges receivable	22,441	9,528
<b>8</b>	Increase in inventories, prepaid expenses and other assets	(42,186)	(22,472)
<b>9</b>	Decrease in accounts payable	(67,149)	(410)
<b>10</b>	Increase in accrued liabilities	326,629	505,825
<b>11</b>	Increase in refundable advances	1,309	5,503
<b>12</b>	Increase (decrease) in deposits and deferred revenue	44,099	(4,827)
<b>13</b>	Increase in other liabilities	11,638	1,756
<b>14</b>	Loss on bond refunding	16,357	-
<b>15</b>	Contributions received for property, plant and equipment and permanent investment	(100,544)	(163,965)
<b>16</b>	Net realized gain on sale of investments	(506,536)	(185,014)
<b>17</b>	Net unrealized depreciation (appreciation) in investments	229,265	(28,396)
<b>18</b>	<b>Net Cash provided by Operating Activities</b>	<b>458,930</b>	<b>293,106</b>
	<b>Cash Flows from Investing Activities</b>		
<b>19</b>	Proceeds from note collections	12,378	12,972
<b>20</b>	Notes issued	(6,436)	(4,612)
<b>21</b>	Proceeds from sale and maturity of investments	6,576,709	4,775,556
<b>22</b>	Purchase of investments	(6,823,883)	(4,652,547)
<b>23</b>	Purchase of property, plant and equipment	(428,208)	(448,171)
<b>24</b>	<b>Net Cash used in Investing Activities</b>	<b>(669,440)</b>	<b>(316,802)</b>
	<b>Cash Flows from Financing Activities</b>		
	Contributions received for permanent investment:		
<b>25</b>	Endowment	76,234	190,368
<b>26</b>	Plant	22,846	70,632
<b>27</b>	Trusts and other	1,464	1,292
<b>28</b>	Repayment of long-term debt	(1,540)	(23,555)
<b>29</b>	Proceeds from revolving line of credit	500,000	-
<b>30</b>	Proceeds from issuance of long-term debt	403,812	-
<b>31</b>	(Decrease) increase in federal student loan funds	(14,869)	3,617
<b>32</b>	Investment gain on annuities payable	6,153	8,500
<b>33</b>	Payment on annuities payable	(11,380)	(11,007)
<b>34</b>	Increase to annuities payable resulting from new contributions	1,889	7,110
<b>35</b>	<b>Net Cash provided by Financing Activities</b>	<b>984,609</b>	<b>246,957</b>
<b>36</b>	<b>Net increase in Cash and Cash equivalents</b>	<b>774,099</b>	<b>223,261</b>
<b>37</b>	<b>Cash and Cash equivalents at beginning of year</b>	<b>1,042,239</b>	<b>818,978</b>
<b>38</b>	<b>Cash and Cash equivalents at end of year</b>	<b>\$1,816,338</b>	<b>\$1,042,239</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

## Note 1.

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

#### General:

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

#### Basis of Presentation:

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

#### Net Assets Without and With Donor Restrictions:

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

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

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

#### Measure of Operations:

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

The university’s non-operating activity within the consolidated statements of activities includes investment returns and other activities related to endowment, long-term benefit plan obligation funding changes, 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.

# Notes to Consolidated Financial Statements

## Note 1. (continued)

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.

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, 2020 and 2019, 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.



## Notes to Consolidated Financial Statements

### Note 1. (continued)

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'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 financial statements.

The university has recorded conditional asset retirement obligations associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in its facilities. When an asset retirement obligation is identified, the university records the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset. The fair value of the conditional asset retirement obligations is estimated using a probability weighted, discounted cash flow model. The present value of future estimated cash flows is calculated using the credit adjusted interest rate applicable to the university in order to determine the fair value of the conditional asset retirement obligations. For the years ended June 30, 2020 and 2019, the university recognized accretion expense related to conditional asset retirement obligations of approximately \$6,889,000 and \$6,526,000, respectively. For the years ended June 30, 2020 and 2019, the university settled asset retirement obligations of approximately \$903,000 and \$944,000, respectively. As of June 30, 2020, and 2019, included in the consolidated balance sheets are asset retirement obligations of \$139,227,000 and \$132,918,000, respectively.

The university recognizes tuition and fees revenue on a straight-line basis over each academic session based on gross price, net of explicit price concessions such as scholarships, discounts and waivers ("Financial aid"), and is displayed in the consolidated statements of activities in "Net 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, 2020, 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
<b>Total</b>	<b>\$416,941</b>	<b>\$221,034</b>	<b>\$637,975</b>

## Notes to Consolidated Financial Statements

### Note 1. (continued)

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

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

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 deferred revenue and student deposits on the consolidated statements of financial position. Receivables are recognized only to the extent that the university has an unconditional right to consideration to which it is entitled in exchange for goods and services transferred to the student. Receipts received in advance of goods and services performed are recorded as 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. Net assets include contributions to the university and its various schools and departments. The university has determined that any donor-imposed restrictions of contributions for current or developing programs and activities are generally met within the operating cycle of the university and therefore, the university's policy is to record these net assets as without donor restrictions. Internally designated net assets are those which have been appropriated by the Board of Trustees or designated by management, and reflected in net assets without donor restrictions.

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

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.

## Notes to Consolidated Financial Statements

### Note 1. (continued)

Contributions of long-lived assets with no donor-imposed time restrictions are reported as revenue without donor restrictions in the year received. Contributions restricted to the acquisition or construction of long-lived assets or subject to other time or purpose restrictions are reported as revenue with donor restrictions. The donor-restricted net assets resulting from these contributions are released to net assets without donor-restricted when the donor-imposed restrictions are fulfilled or the assets are placed in service. Contributions received for endowment investment are held in perpetuity and recorded as revenue with donor restrictions. For the years ended June 30, 2020 and 2019, the university recognized approximately \$140,000,000 and \$145,000,000 of private contracts and grants revenue in contributions on the consolidated statements of activities.

Health care services revenues include the net patient service revenues associated with Keck Hospital of USC, USC Norris Cancer Hospital, USC Verdugo Hills Hospital and USC Care Medical Group, Inc (“Health 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.

## Notes to Consolidated Financial Statements

### Note 1. (continued)

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 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 declared the novel strain of coronavirus (“COVID-19”) a Public Health Emergency of International Concern. The outbreak of COVID-19 has caused domestic and global disruption in operations for institutions of higher education. In addition, COVID-19 has negatively impacted the financial markets and may continue to materially affect the returns on and value of the university’s investments and/or endowment. Other adverse consequences of COVID-19 or any other similar outbreaks in the future may have a negative effect on the university’s various revenue streams. The full impact of COVID-19 and the scope of any adverse impact on the university’s finances and operations cannot be fully determined at this time.

The COVID-19 pandemic has caused a disruption to our 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 were postponed in order to prepare for the increased volume of COVID-19 patients and reduce the risk of exposure to COVID-19. The Health System 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 by the organization.

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, the Health System 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 the consolidated statements of activities. The Health System recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by HHS, governing the funding that was publicly available at June 30, 2020. In September and October 2020, HHS issued new reporting requirements for the CARES Act provider relief funding. Due to these new reporting requirements there is at least a reasonable possibility that amounts recorded under CARES Act provider relief funding by the Health System may change in future periods. In addition, the Health System 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 the consolidated balance sheet as of June 30, 2020. 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 repayments, thus delaying the start of the repayment period from 120 days to one year from when the funding was provided.

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, 2020, \$30.2 million 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.

## Notes to Consolidated Financial Statements

### Note 1. (continued)

#### Recent Accounting Pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the consolidated balance sheets. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. The university will adopt this ASU on July 1, 2020 and is implementing a new lease system in connection with this adoption. Management is progressing with implementation and continuing to evaluate the effect to the university's consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt repayment or debt extinguishment costs, contingent considerations payments made after a business combination, and distributions received from equity method investments. The university adopted ASU 2016-15 for the fiscal year ended June 30, 2020. Adoption did not have a material impact on the university's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, a standard on Restricted Cash. This ASU clarifies how entities should present restricted cash and restricted cash equivalents in the consolidated statements of cash flows and requires entities to present changes in total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement as well. The university adopted ASU 2016-18 for the fiscal year ended June 30, 2020 and applied it retroactively. Adoption did not have a material impact on the university's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendment requires the bifurcation of net benefit cost where the service cost component continues to be presented with other employee costs in operating income (or capitalized in assets) and the other components (such as interest, expected return on plan assets, and amortization of actuarially determined amounts) are required to be presented as a nonoperating change in net assets without restrictions. The new standard requires retrospective application and allows a practical expedient that permits an employer to use the amounts disclosed in its employee benefits footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. The university utilized the practical expedient to estimate the impact on the fiscal 2019 information. The adoption of the standard resulted in the reclassification of \$36.0 million in net periodic benefit costs, other than service costs, from "salaries and benefits" operating expense to "other components of net periodic benefit cost" nonoperating expense presented in the *consolidated statements of activities*. Therefore, the fiscal 2019 "decrease in net assets from operating activity" was reduced by \$36.0 million, from \$396.0 million to \$360.0 million.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This standard removes certain disclosures, modifies certain disclosures and adds additional disclosures related to fair value measurement. The ASU is effective for the university beginning in fiscal year 2021. The university is currently evaluating the effect of adoption to the financial statements.

## Notes to Consolidated Financial Statements

### Note 2.

#### Liquidity and Availability:

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

	<b>Year Ended June 30, 2020</b>	<b>Year Ended June 30, 2019</b>
<b>Total assets at year end</b>	\$14,495,427	\$13,139,364
<i>Less:</i>		
Notes receivable due in more than one year	(7,954)	(9,337)
Pledges receivable due in more than one year	(357,804)	(381,413)
Donor-restricted endowment funds	(4,408,725)	(4,222,348)
Board-designated endowment funds	(1,505,633)	(1,517,217)
Annuities and living trusts	(165,533)	(169,328)
Inventories, prepaid expenses and other assets	(156,127)	(127,154)
Property, plant and equipment	(4,529,893)	(4,363,842)
<b>Financial assets available at year end for current use</b>	<b>\$3,363,758</b>	<b>\$2,348,725</b>

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 2020 and 2019, 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 2020 and 2019, the Board of Trustees approved an endowment pool payout of \$30.33 a share, for a total spending rule allocation of \$261,989,000 and \$246,551,000. As described in Note 6, the university also has unfunded commitments on alternative investments totaling \$796,831,000 and \$749,821,000 for fiscal year 2020 and 2019.

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. Additionally, the university has a board-designated endowment of \$1,505,633,000 as of June 30, 2020. 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):

	<b>2020</b>	<b>2019</b>
U.S. Government	\$39,516	\$40,010
Student and other, net of allowance for doubtful accounts of \$20,457 (2020), \$12,505 (2019)	197,709	157,919
Patient care	244,930	273,782
<b>Total</b>	<b>\$482,155</b>	<b>\$471,711</b>

## Notes to Consolidated Financial Statements

### Note 4.

#### Notes and Loans Receivable:

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

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

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

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

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

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.

## Notes to Consolidated Financial Statements

### Note 4. (continued)

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, 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
<b>Total student loans</b>	1,210	272	8,892	47,205	57,579
Faculty and other loans				25,095	25,095
<b>Total</b>	<b>\$1,210</b>	<b>\$272</b>	<b>\$8,892</b>	<b>\$72,300</b>	<b>\$82,674</b>

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

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

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, 2020 and 2019, is adequate to absorb credit losses inherent in the portfolio as of these dates.

As part of the program to attract and retain exemplary faculty and senior staff, the university provides home mortgage financing assistance. Notes receivable amounting to \$25,095,000 and \$31,052,000 were outstanding as of June 30, 2020 and 2019, 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, 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):

	<b>2020</b>	<b>2019</b>
Less than one year	\$103,525	\$80,916
One to five years	302,876	313,667
More than five years	143,381	194,727
Less: discount	(58,895)	(75,398)
Less: allowance	(50,999)	(51,583)
<b>Total</b>	<b>\$439,888</b>	<b>\$462,329</b>

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

	<b>2020</b>	<b>2019</b>
Endowment for departmental programs and activities	\$191,060	\$203,837
Endowment for scholarship	26,477	28,133
Building construction	98,917	97,515
Departmental programs and activities	123,434	132,844
<b>Total</b>	<b>\$439,888</b>	<b>\$462,329</b>

Conditional pledges for the university, which depend on the occurrence of specified future and uncertain events, at June 30, 2020 and 2019, was \$272,607,000 and \$316,536,000, respectively. The majority of these conditional pledges are related to construction of the Ellison Institute for Transformative Medicine.

## Notes to Consolidated Financial Statements

### Note 6.

#### Investments:

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

	2020	2019
Equities	\$2,153,449	\$2,344,188
Fixed income securities	1,638,549	1,024,505
Alternative investments:		
Hedge funds	1,202,078	1,217,195
Private capital	1,392,974	1,340,500
Real estate and other	290,763	276,671
Assets held by other trustees	138,451	148,177
<b>Total</b>	<b>\$6,816,264</b>	<b>\$6,351,236</b>

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
<b>Total</b>	<b>\$2,475,830</b>	<b>\$1,197,293</b>	<b>\$201,574</b>	<b>\$2,941,567</b>	<b>\$6,816,264</b>

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

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

## 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, 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
<b>Total</b>	<b>\$297,632</b>	<b>\$8,188</b>	<b>(\$277,597)</b>	<b>\$181,419</b>	<b>(\$8,059)</b>	<b>\$0</b>	<b>(\$9)</b>	<b>\$201,574</b>

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

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

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, 2020 and 2019, was \$334,275,000 and \$304,393,000, respectively.

## 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
<b>Distressed Obligation Partnerships</b>	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
<b>Hedge Funds</b>	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.
<b>Natural Resources Partnerships</b>	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
<b>Private Capital Partnerships</b>	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
<b>Private Real Estate Partnerships</b>	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
<b>Equity Funds</b>	U.S. and Non-U.S. Equity Securities	86,319	Not Applicable	Open Ended	Minimum monthly	None
<b>Other Funds</b>	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	117	Not Applicable	Open Ended	Monthly	None
<b>Total</b>		<b>\$2,941,567</b>	<b>\$796,831</b>			

## 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, 2019 (in thousands):

At June 30, 2019

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

## Notes to Consolidated Financial Statements

### Note 7.

#### Endowment:

Endowment net assets are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income and realized gains be utilized for current and future needs. Long-term investment net assets (board-designated endowment funds) have been established from restricted contributions whose restrictions have been met and unrestricted contributions which have been designated by the Board of Trustees or management for 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, 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
<b>Total</b>	<b>\$1,505,633</b>	<b>\$4,408,725</b>	<b>\$5,914,358</b>

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

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

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, 2020 and 2019, the pool is comprised of cash and cash equivalents (2.33% and (0.65%), equities (56.42% and (56.70%), fixed income securities (12.58% and (11.86%), alternative investments (24.16% and (26.61%) and real estate and other investments (4.51% and (4.18%), 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, 2020 and 2019, was \$662.69 and \$676.76, respectively.

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

## Notes to Consolidated Financial Statements

### Note 7. (continued)

Endowment net asset composition by type of funds as of June 30, 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
<b>Total</b>	<b>\$1,505,633</b>	<b>\$4,408,725</b>	<b>\$5,914,358</b>

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

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

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

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Endowment net assets at July 1, 2019</b>	\$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)
<b>Endowment net assets at June 30, 2020</b>	<b>\$1,505,633</b>	<b>\$4,408,725</b>	<b>\$5,914,358</b>

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

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Endowment net assets at July 1, 2018</b>	\$1,484,150	\$4,060,117	\$5,544,267
Total investment return, net	114,815	138,274	253,089
Contributions and transfers	31,147	156,641	187,788
Appropriation of endowment assets for expenditure	(112,895)	(132,684)	(245,579)
<b>Endowment net assets at June 30, 2019</b>	<b>\$1,517,217</b>	<b>\$4,222,348</b>	<b>\$5,739,565</b>

## Notes to Consolidated Financial Statements

### Note 7. (continued)

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

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

	2020	2019
Restricted for scholarship support	\$988,152	\$982,166
Restricted for faculty support	965,655	975,872
Restricted for program support	2,454,918	2,264,310
<b>Total endowment assets with donor restrictions</b>	<b>\$4,408,725</b>	<b>\$4,222,348</b>

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 \$160,837,000 and a current value of \$158,254,000 with a deficiency of \$2,583,000 and an original value of \$36,070,000 and a current fair value of \$35,756,000 and a deficiency of \$314,000 as of June 30, 2020 and 2019, 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 6.7% annually. Actual returns in any given year may vary from this amount.

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

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

For the 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.



## Notes to Consolidated Financial Statements

### Note 7. (continued)

For the 2019 fiscal year, the Board of Trustees approved current distribution of 102% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provisions of the spending rule, \$29.45 was distributed to each time-weighted unit for a total spending rule allocation of \$246,551,000. Investment income amounting to \$7.14 per time-weighted unit was earned, totaling \$59,756,000, and \$186,795,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2019 represent 4.47% of the market value of the endowment pool at June 30, 2019.

### Note 8.

#### Property, Plant and Equipment:

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

	2020	2019
Land and improvements	\$207,608	\$201,409
Buildings and improvements	5,822,617	5,538,709
Buildings under capital leases	65,822	65,822
Equipment	775,976	740,141
Library books and collections	444,005	421,392
Construction-in-progress	335,747	253,250
	<b>7,651,775</b>	<b>7,220,723</b>
Less: Accumulated depreciation	3,121,882	2,856,881
<b>Total</b>	<b>\$4,529,893</b>	<b>\$4,363,842</b>

## Notes to Consolidated Financial Statements

### Note 9.

#### Leases:

The university is the lessee of various equipment and space under non-cancelable operating and capital leases. Operating lease rental expense is recognized as operating expenses in the Statement of Activities for the years ended June 30, 2020 and 2019, was approximately \$48,688,000 and \$42,122,000, respectively. Space leases contain customary escalation clauses, which are included in annual aggregate minimum rentals.

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

<b>Future minimum rental payments:</b>	<b>Operating</b>	<b>Capital</b>
2021	\$52,358	\$1,685
2022	51,691	1,730
2023	43,780	1,775
2024	38,507	1,823
2025	35,400	1,872
Thereafter	186,606	662,599
	<b>408,342</b>	<b>671,484</b>
Less: Interest on capital leases		(593,939)
<b>Total</b>	<b>\$408,342</b>	<b>\$77,545</b>

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

The lease agreement with the LAMCC expires in 2033, or in 2054, if all options are exercised, at which time a second lease agreement with the California Science Center (CSC), an institution of the state of California, commences. The lease with the CSC expires in 2111, assuming all options are exercised. Under the terms of both lease agreements, the university is required to make certain capital improvements. The present value of the future minimum lease payments as of June 30, 2020 and 2019, is \$77,545,000 and \$75,869,000, respectively.

## Notes to Consolidated Financial Statements

### Note 10.

#### Bonds Payable and Line of Credit

Bonds payable and Line of Credit outstanding as of June 30 (*in thousands*):

	Interest %	Maturity	2020	2019
<i>California Educational Facilities Authority Revenue Bonds and Notes:</i>				
Series 2009C	5.25	2025		\$82,305
Premium				3,051
Series 2012A	5.00	2024		41,595
Premium				4,389
Series 2015A	5.00	2026		42,960
Premium				6,248
<i>University of Southern California Bonds:</i>				
Series 2011 Taxable	5.25	2112	\$300,000	300,000
Discount			(2,451)	(2,478)
Series 2016 Taxable	3.03	2040	722,580	722,580
Discount			(3,078)	(3,236)
Series 2017 Taxable	3.84	2048	402,320	402,320
Discount			(1,623)	(1,682)
Series 2020A Taxable	3.23	2121	320,000	
Discount			(2,823)	
Series 2020B Taxable	2.81	2051	308,835	
Discount			(1,347)	
<i>California Infrastructure Revenue Bonds (USC- Soto Street Health Sciences):</i>				
Series 2010 (Soto)	3.25-5.00	2018-2032		26,750
Premium				1,544
<i>Line of Credit</i>				
Revolving line of credit	Variable	2021	500,000	
			2,542,413	1,626,346
<u>Less: current portion of long-term debt</u>			500,000	1,540
<b>Total</b>			<b>\$2,042,413</b>	<b>\$1,624,806</b>

Principal payment requirements relating to bonds and notes payable, after giving effect to refunding, for the next five fiscal years are approximately: 2021 \$500,000,000; 2022 \$0; 2023 \$0; 2024 \$0; 2025 \$0, thereafter \$2,053,735,000.

Interest payments for fiscal year 2020 and 2019 were \$67,520,000 and \$63,428,000, 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.

## Notes to Consolidated Financial Statements

### Note 10. (continued)

The university has a revolving line of credit with a bank with a maturity date of November 30, 2025. The credit agreement was amended during fiscal year 2020 in order to extend the maturity date and improve certain terms and conditions, including the applicable rate. The committed size of the revolving line of credit remains at \$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. USC was in compliance with these covenants during fiscal years ending June 30, 2020 and 2019. On March 20, 2020 the University drew down \$500,000,000 on the bank line of credit for general corporate purposes, and the full balance remained outstanding as of June 30, 2020.

### Note 11.

#### Retirement Benefits:

Retirement benefits for eligible university employees are provided through the Teachers Insurance and Annuity Association, The Vanguard Group, AIG Sun America, Fidelity Investments and Prudential Financial. Under these defined contribution plans, the university and plan participants make contributions to purchase individual, fixed or variable annuities equivalent to retirement benefits earned or to participate in a variety of mutual funds. Under the USC Retirement Savings Program, the university makes a 5% non-elective contribution to all eligible employees and also matches dollar for dollar the first 5% of the employees' contributions. Newly hired employees on or after January 1, 2012, will have the university non-elective contribution subject to a four year vesting schedule. Employees hired on or after January 1, 2019, are subject to a one year waiting period counted under the lapsed time method. Benefits commence upon termination or retirement and pre-retirement survivor death benefits are also provided. Charges to operating expenses for the university's share of costs were approximately \$186,888,000 and \$181,478,000 during the years ended June 30, 2020 and 2019, 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. Charges to operating activities expenses for the university's share of costs were approximately \$0 and \$0 during the years ended June 30, 2020 and 2019, respectively.

## Notes to Consolidated Financial Statements

### Note 11. (continued)

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):

<b>Changes in Projected Benefit Obligation</b>	<b>2020</b>	<b>2019</b>
Benefit obligation at end of prior year	\$148,165	\$229,537
Interest cost	5,372	8,779
Actuarial gain	20,659	30,498
Annuity purchase for plan participants	-	(108,958)
Benefits paid	(1,379)	(11,691)
	<b>\$172,817</b>	<b>\$148,165</b>

<b>Change in Plan Assets</b>		
Fair value of plan assets at the end of prior year	\$126,672	\$208,841
Actual return on plan assets	17,913	16,481
Employer contribution	-	22,000
Annuity purchase for plan participants	1,260	(108,958)
Benefits paid	(1,379)	(11,691)
	<b>\$144,466</b>	<b>\$126,673</b>

<b>Reconciliation of Funded Status</b>	<b>2020</b>	<b>2019</b>
Accumulated benefit obligation at end of year	(\$172,817)	(\$148,165)
Projected benefit obligation at end of year	(172,817)	(148,165)
Fair value of plan assets at end of year	144,466	126,672
<b>Funded status</b>	<b>(\$28,351)</b>	<b>(\$21,493)</b>

<b>Components of Net Periodic Benefit Cost</b>	<b>2020</b>	<b>2019</b>
Interest cost	\$5,372	\$8,779
Expected return on plan assets	(6,661)	(10,300)
Amortization of net loss	3,512	3,702
Settlement	-	33,781
<b>Total benefit cost</b>	<b>\$2,223</b>	<b>\$35,962</b>

<b>Amounts recognized in the Statement of Financial Position</b>	<b>2020</b>	<b>2019</b>
Accrued liabilities	(\$28,351)	(\$21,493)

<b>Amounts not yet recognized as components of Net Periodic Benefit Cost</b>	<b>2020</b>	<b>2019</b>
Net loss	\$52,855	\$48,219

## Notes to Consolidated Financial Statements

### Note 11. (continued)

Changes in the net reduction to Without Donor Restrictions	2020	2019
Net loss	\$8,148	\$24,318
Amortization of net (gain)	(3,512)	(3,702)
Recognition of net (gain) due to settlement	-	(33,781)
<b>Total benefit cost</b>	<b>\$4,636</b>	<b>(\$13,165)</b>

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 \$3,854,000.

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.

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

	2020	2019
Discount rate	3.65%	4.40%
Expected return on plan assets	5.30%	5.70%
Rate of compensation increase	N/A	N/A

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

	2020	2019
Discount rate	2.90%	3.65%
Rate of compensation increase	N/A	N/A

### Plan Assets

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

As described in Note 1, the university uses a hierarchy to report invested assets, including the invested assets of the Plan. Following is a description of the valuation methodologies used for assets measured at fair value.

## Notes to Consolidated Financial Statements

### Note 11. (continued)

#### 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, 2020, 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		\$1,320			\$1,320
Equity securities		57,160			57,160
Fixed income securities		85,986			85,986
<b>Total</b>		<b>\$144,466</b>			<b>\$144,466</b>

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

	Level I	Level II	Level III	NAV	Total
Collective Trust Funds:					
Short-term investment fund		\$3,637			\$3,637
Equity securities		46,715			46,715
Fixed income securities		76,321			76,321
<b>Total</b>		<b>\$126,673</b>			<b>\$126,673</b>

#### 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	Target at	Actual at	Target at
	June 30, 2020	June 30, 2020	June 30, 2019	June 30, 2019
Short-term investment fund	1.0%	0.0%	2.9%	0.0%
Equity securities	40.0%	40.0%	36.9%	40.0%
Fixed income securities	59.0%	60.0%	60.2%	60.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## Notes to Consolidated Financial Statements

### Note 11. (continued)

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, 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):

	<b>Fiscal Year Ending June 30</b>
2021	\$3,157
2022	3,966
2023	4,700
2024	5,421
2025	6,070
2026-2030	38,307



## Notes to Consolidated Financial Statements

### Note 12.

#### Net Assets:

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

Nature of Specific Net Assets	Without Donor Restrictions	With Donor Restrictions	Year Ended
			June 30, 2020
			Total Net Assets
Internally reserved	\$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
<b>Total</b>	<b>\$4,360,865</b>	<b>\$5,073,437</b>	<b>\$9,434,302</b>

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

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

## 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. See Note 1 for the impact to fiscal year 2019 financial information related to the adoption of ASU 2017-07.

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	562,802	13,493	1,687,514
Cost of goods sold	80,009	32,355		112,364
Travel	38,354	9,146	673	48,173
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	
<b>Total</b>	<b>\$4,412,761</b>	<b>\$1,047,993</b>	<b>\$64,183</b>	<b>\$5,524,937</b>

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

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

## Notes to Consolidated Financial Statements

### Note 14.

#### Commitments and Contingencies

Contractual commitments for educational plant amounted to approximately \$75,743,000 and \$104,934,000 at June 30, 2020 and 2019, respectively. It is expected that the resources to satisfy these commitments will be provided from certain unexpended plant net assets, anticipated contributions and/or debt proceeds.

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

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

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

Of note, during fiscal years ended June 30, 2019 and 2020, the university was named in additional civil lawsuits in connection with alleged misconduct by a physician who was previously employed by the university and practiced at the university student health center; this individual was alleged to have engaged in inappropriate conduct and made inappropriate statements to patients. On February 25, 2020, the court in the federal class action litigation issued final approval of a \$215 million settlement, plus attorneys' fees not to exceed \$25 million. The balance of the claims are currently being processed in accordance with the terms of the federal settlement and are expected to be resolved in the first quarter of 2021. As of June 30, 2020, approximately 800 individuals have opted out of the federal class action settlement, and of these, approximately 760 are plaintiffs in active state court cases.

Management has assessed the risk of loss related to the alleged misconduct above together with other litigation and for those matters deemed estimable and probable has accrued expenses included in operating expenses in the consolidated statements of activities. As of June 30, 2020, \$108.5 million has been recovered 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, 2020, and as a result no insurance recovery accruals have been recorded in the 2019 and 2020 consolidated financial statements. The university recognizes that the ultimate outcome of these matters may be different than the estimates made in the consolidated financial statements as of and for the years ended June 30, 2019 and 2020, and those differences may be material to the university's financial position.

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):

	2020	2019
Current sponsored awards	\$1,165,773	\$780,063
Executed grants and contracts for future periods	1,325,318	1,414,199
<b>Total</b>	<b>\$2,491,091</b>	<b>\$2,194,262</b>

### Note 16.

#### Related Parties

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

### Note 17.

#### Subsequent Events

The university has performed an evaluation of subsequent events through November 23, 2020, which is the date the financial statements were issued.