UNIVERSITY OF SOUTHERN CALIFORNIA

Financial Report 2017

On the cover: *A uniquely Trojan design element — a statue celebrating the women of Troy – stands in the central piazza. The statue depicts Hecuba, the queen of Troy. Her mythological story comes to us through Homer and Euripides. "Wife of Priam, mother of Hector, Hecuba would defend her children and her city with fierce passion and loyalty," says USC President C. L. Max Nikias. "She would urge the Trojans to fight on, even when they were outnumbered, exhausted, facing impossible odds. The spirit of Hecuba always inspired them to achieve great triumphs." Hecuba serves as an anchor to connect USC Village with the storied history of the university.*

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

University of Southern California, (USC), had an incredible year ending June 30, 2017 with strong financial results and impressive growth across the university. USC generated a positive cash flow of more than $783 million that can be utilized for strategic institutional priorities. These impressive results are a reflection of many efforts, including a successful fundraising campaign, endowment portfolio management, and the health care enterprise. Adding to these achievements, and after nearly three years of construction and over $650 million in investment, the USC Village welcomed students and the community with a historic grand opening in August 2017. The USC Village is the largest development in the history of USC and South Los Angeles, and will transform the university experience for our students.

USC Village

At a massive 1.2 million square feet and 15 acres, the USC Village is a place where living and learning, college and community find a new home together. There are eight residential colleges that house more than 2,500 students and their faculty mentors and includes a grand dining hall, fitness center, and more. The USC Village is a centerpiece of the Campaign for USC, the university's ambitious, multiyear effort that has raised more than $6 billion since its launch in 2011.

USC Campaign

The campaign focuses on academic priorities including student scholarship, funding for faculty and research programs, and new facilities. During fiscal year 2017, the USC campaign reached its $6 billion goal well ahead of schedule, securing its place among the most successful campaigns in higher education. Building on this momentum, President C. L. Max Nikias announced that USC will extend its campaign for five more years, through December 31, 2021.

Financial Results

For the year ending June 30, 2017, USC generated a surplus on a Generally Accepted Accounting Principles (GAAP) basis of $898 million, as a result of increasing heath care enterprise revenues, gift contributions that continue to exceed expectations, tuition revenue, and investment returns. This performance also contains operating results of $211 million, which was $43 million more than fiscal year 2016. Our endowment remains well-diversified across asset classes and managers, and yielded a 12.8 percent return fiscal year to date, outperforming policy benchmarks. USC's hospitals and physician activities saw continued revenue growth, positive earnings and cash flows that all significantly exceeded budget and prior year targets.

Exceptional Value

USC has a long tradition of recruiting exceptional students from diverse socioeconomic backgrounds, regardless of their financial need, and the university met the full demonstrated need of every admitted undergraduate student in 2017 (who met the deadline and eligibility requirements).

The university's strong commitment to providing access and opportunity to all qualified students is demonstrated through its generous financial aid program. Nearly two-thirds of USC undergraduate students receive some form of financial aid, including merit scholarships, need-based grants, federal work-study, and student loans. For 2017, the total amount of financial aid provided from university resources was more than $510 million. USC's average net price—the cost that a USC student actually pays—is significantly lower than the published rate of tuition.

The value that a USC education provides is unlike any other American institution of higher education: the resources of a major research university combined with the class size and student-faculty ratio of a small college, with a focus on student progress that produces a six-year graduation rate of 92 percent.

Health Care Enterprise

The health care enterprise plays a central role in the life of the university. Health care revenue grew by 6 percent to $1.6 billion in fiscal year 2017. Earnings before interest, depreciation and amortization were $120 million and bottom line operating results were $20 million. These results exceeded budgeted amounts and contributed positive cash flow for the fiscal year. The overall positive performance of the health care enterprise is a result of continued clinical growth and disciplined cost management efforts.

Financing

In August 2016, USC executed on an extraordinary financing opportunity in the weeks following the Brexit referendum. This unprecedented event allowed for an accelerated decline in interest rates, creating a significant opportunity for USC to refinance tax-exempt debt into taxable debt at a yield of 3.0 percent. USC redeemed three series of bonds with the $723 million of new debt at record low rates, producing a present value savings of $189 million.

In April 2017, USC issued $402 million in taxable bonds at 3.8 percent to secure institutional liquidity for strategic projects, including technology investments.

Technology

USC made major strategic investments in information technology services in fiscal year 2017, including a multi-year transformational program designed to enhance USC's cybersecurity and network capabilities to meet the institution's ever-evolving needs as a world-class research university.

Looking Forward

The university's aspirational vision is to transform education in a rapidly changing world. By endeavoring to make an outstanding education accessible to a highly talented and diverse student body, USC can further its mission to develop humans and society through teaching, research, and public service. As we achieve this mission, we are also increasingly focused on cost containment and new sources of revenue as we embrace opportunities to be more efficient in responding to more difficult market conditions ahead. USC's future is bright, with our fall freshman class setting many new records, including more first-generation students than ever before. The long-standing Trojan values of searching for truth and committing to service create the strong foundation that define our community and connect us to our past and future. Fight On!

James Staten

JAMES STATEN
Senior Vice President, Finance
and Chief Financial Officer

Fiscal Year 2017 Results

Revenue

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

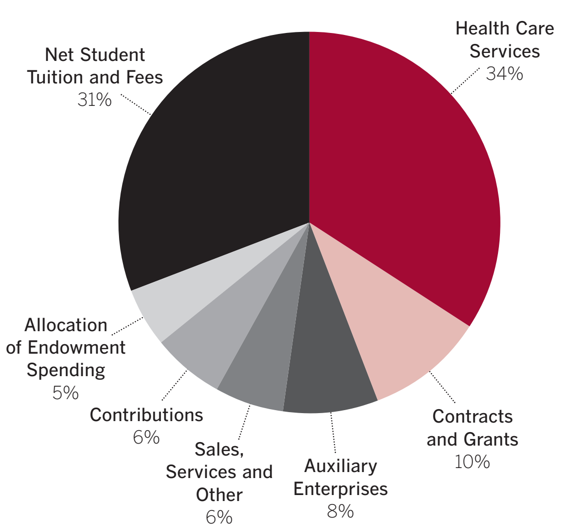
Net Student Tuition and Fees

Net tuition, room and board increased 6 percent from $1,310 million in 2016 to $1,389 million in 2017. Student tuition totaled $1,899 million in 2017, an increase of 6 percent from 2016 at $1,793 million. In accordance with generally accepted accounting principles, student tuition and fees is presented net of financial aid, which totaled $510 million and $483 million for 2017 and 2016, respectively. Net student tuition and fees represented 30.6 percent and 30.3 percent of the university's operating revenues in 2017 and 2016, respectively.

During the 2017 academic year, 45,687 students were enrolled at the university; 19,170 were undergraduate students and 26,517 were pursuing their graduate studies.

USC Operating Revenue

As of June 30, 2017

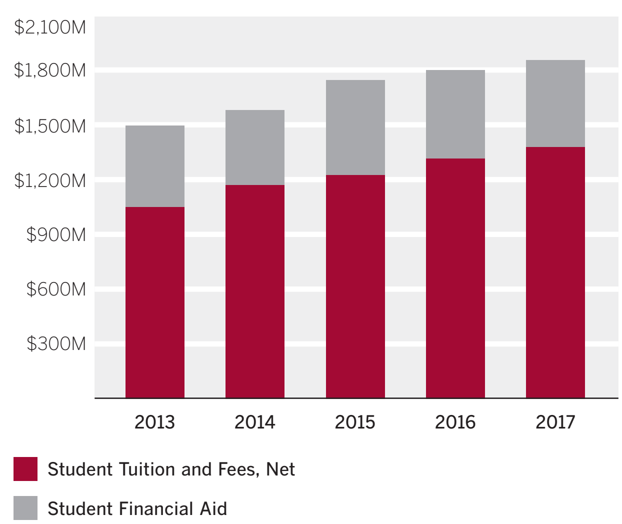


The total annual cost of attendance for 2016-2017 undergraduate students enrolled in USC was $69,711, which represents a 4 percent increase from the 2015-2016 annual undergraduate total cost of attendance of $67,212.

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

Approximately 22 percent of the 2017 entering first-year class received a merit-based scholarship from USC, and over 60 percent received some form of financial assistance. Nearly 21 percent of the 2016 entering freshman class received a merit-based scholarship from USC, with over 60 percent receiving some form of financial assistance.

USC Financial Aid

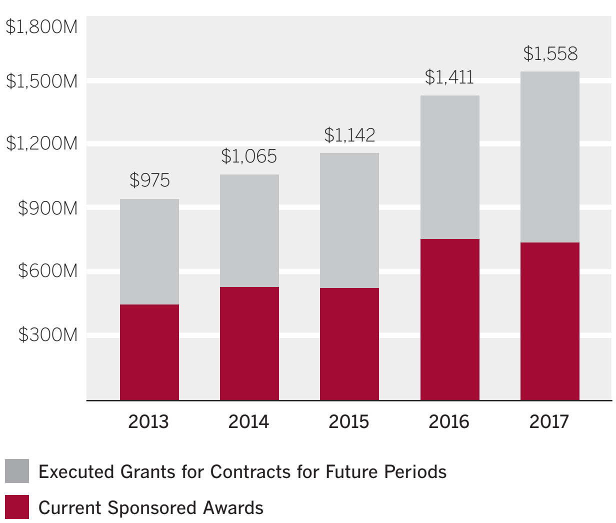


Contract and Grants Revenue

USC is one of a small number of premier research institutions on which the nation depends for a steady stream of new knowledge, innovations and discovery. USC is ranked second in the nation among all universities in the size of its federally funded computer science research program, and has the largest graduate program in science, engineering and health of all research universities. The following contracts and grants graphic displays current sponsored awards and executed grants for contracts for future periods as presented in footnote 16 of the 2017 audited financial statements. Total contracts and grants has been steadily increasing since 2013, with a notable 2017 increase in executed grants and contracts for future periods due, in part to, consistent growth in the number of sponsored research proposals submitted to USC researchers.

In addition to the reimbursement of direct costs charged to sponsored awards, sponsoring agencies reimburse the university for a portion of its facilities and administrative costs (referred to as indirect costs), which include costs related to research laboratory space, facilities, and utilities, as well as administrative and support costs incurred for sponsored activities. These reimbursements for facility and administrative costs amounted to $148 million in 2017 and $139 million in 2016, an increase of 6 percent, respectively. Recovery of facility and administrative costs associated with federally sponsored awards is recorded at rates negotiated with the university's cognizant agency, the Department of Health and Human Services.

USC Contract and Grant Awards

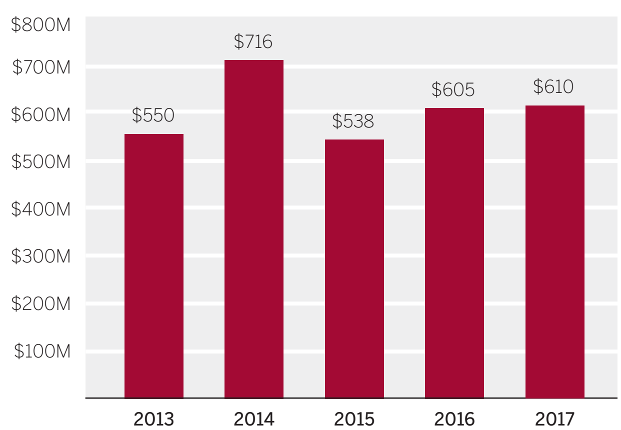


Contribution Revenue

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

In aggregate, contributions included in the University's consolidated financial statements totaled $610 million in 2017, an increase of 1 percent when compared to 2016 contribution revenue of $605 million. In March of 2017, the university surpassed its campaign goal to secure $6 billion in private support, over a year ahead of schedule. This ambitious effort has touched and transformed many aspects of the university. Refer below for details on the USC contribution revenue from 2013, two years into the campaign.

USC Contribution Revenue



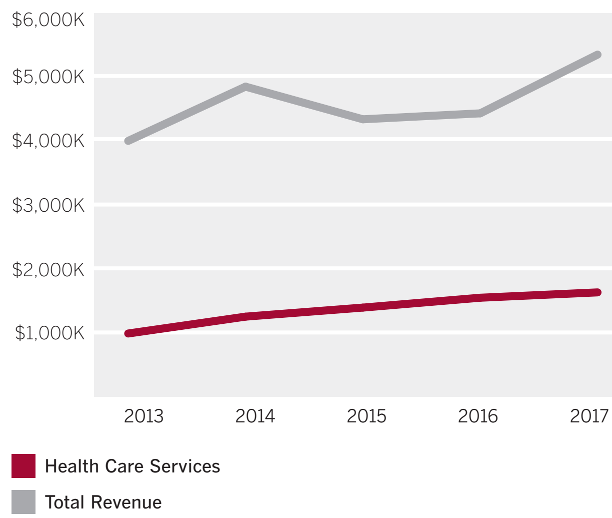
Certain gifts commonly reported in fundraising results are not recognized as contributions on the university's consolidated financial statements. Examples of gifts that are not included in such statements include "in-kind" gifts of property, such as art, and certain portions of pledges whose full conditions have not yet been met, such as those designated for building renovations. Conditional pledges for the university, which depend on the occurrence of specified future and uncertain events, were $392 million and $406 million as of June 30, 2017 and 2016, respectively.

Health Care Services Revenue

Health care service revenue totaled $1,552 million in fiscal year 2017, an increase of 6 percent from 2016 of $1,467 million. Health care service revenue represents the largest revenue stream for the university at 34 percent of total operating revenue. The largest portion of this revenue stream, $1,407 million, is derived from medical services provided by the combined operations of Keck Hospital of USC, USC Norris Cancer Hospital, and USC Verdugo Hills Hospital. The hospitals are among the nation's leading medical centers, providing inpatient and outpatient medical and health care services to patients throughout Southern California. Keck Medical Center of USC includes the 401-licensed bed Keck Hospital of USC, the 60-licensed bed USC Norris Cancer Hospital, and the 158-licensed bed USC Verdugo Hills Hospital. It also includes more than 40 outpatient facilities, some at affiliated hospitals, in Los Angeles, Orange, Kern, Tulare and Ventura counties. The medical faculty physician group, USC Care Medical Group, practices at the above facilities as well as at Children's Hospital Los Angeles and Los Angeles County + USC Medical Center (LAC +USC).

As noted in the graph below, the USC health care enterprise has experienced steady revenue growth for the last five years, with noted increases in fiscal year 2017. Health system revenue exceed budgeted amounts and the hospitals are in a positive cash flow position for the fiscal year. Several improvements were made over the course of the year, including a shorter turn around for days in accounts receivable as well as improved cash collections. The hospitals have experienced increasing patient transfers and continue to grow patient volumes.

USC Health Care Services Revenue



Allocation of Endowment Spending

Each year, a portion of accumulated endowment investment returns is allocated to support operational activity. The level of spending is computed in accordance with an endowment spending policy that has the effect of smoothing year-to-year market swings. The endowment spending rate has remained consistent at 4.6 percent for both 2017 and 2016. Additional information on the endowment spending policy is provided in the endowment section of this report.

Auxiliary Enterprise Revenue

Auxiliary enterprise revenue totaled $346 million in fiscal year 2017, an increase of 9 percent from 2016 revenue of $319 million, and represented 8 percent of the university's 2017 operating revenue. Auxiliary enterprises revenue includes USC Athletics, as well as the L.A. Memorial Coliseum, Sports Arena, and University Club. Auxiliary revenue also includes revenue from the various service lines such as housing, hospitality, transportation, bookstores and the Radisson Hotel at USC.

Sales, Services, and Other Revenue

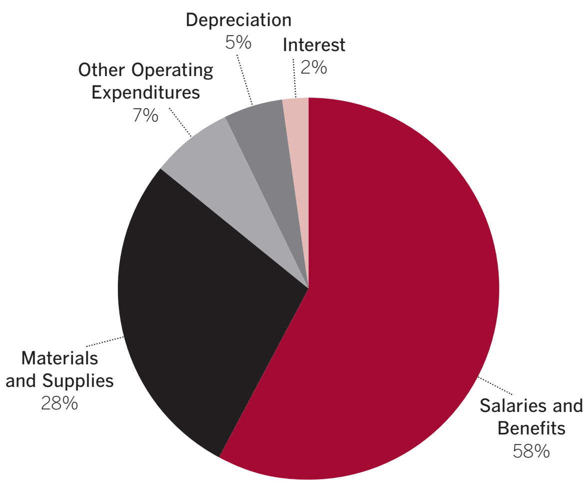
Sales and services revenue totaled $158 million in fiscal year 2017, an increase of 18 percent from 2016 revenue of $134 million, and represented 3 percent of the university's 2017 operating revenue. Some of the major components of sales and services category include revenue from USC Pharmacies, as well as the Norris Dental Center Clinics and Oral Health Center. Other operating revenue totaled $114 million in fiscal year 2017, a decrease of 4 percent from 2016 revenue of $118 million, and represented 3 percent of the university's 2017 operating revenue. The other revenue category includes revenue from USC Radio, Ticket Office sales, and revenue from the USC Marshall School of Business research centers, as well as the USC Suzanne Dworak-Peck School of Social Work's Telehealth program.

Expenses

Expenses totaled $4.3 billion for 2017, representing a 4.3 percent increase from the 2016 operating expenses of $4.2 billion. As noted in the "*Expenses by Natural Classification*" graphic below, salaries and benefits are the largest component of operating expense at approximately 58 percent of total expenses.

USC Expenses by Natural Classification

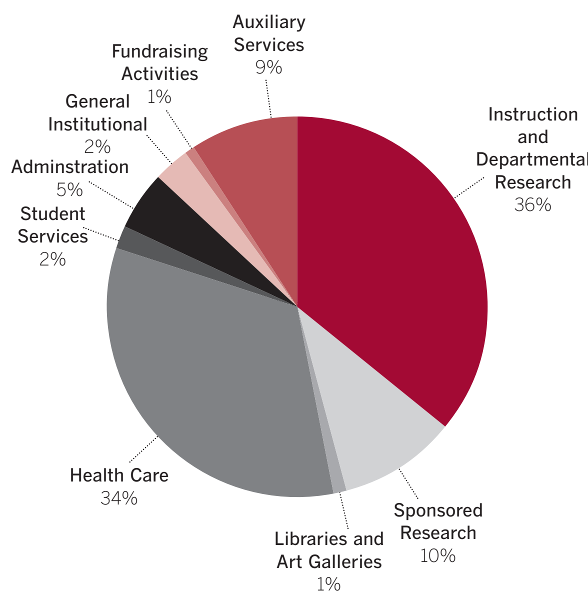
For period ending June 30, 2017



During the 2017 fiscal year, USC employed 6,018 faculty, 14,482 staff (including hospital and academic staff) and 7,655 student workers as full-time equivalents. Compensation costs of salaries and benefits were $2.5 billion in 2017, a 2.7 percent increase over compensation costs in 2016 at $2.4 billion. These costs include salary, pension, postretirement health, and insurance plans in addition to Social Security and other statutory benefits. With respect to consolidated expenses, salaries and benefits increased 2.7 percent, operating expenses increased 5.9 percent, depreciation increased 17.9 percent, and interest expense decreased 8.1 percent when compared to 2016 due to the bond refinancing. In accordance with generally accepted accounting principles, USC reports its expenses by functional classification within the notes of the consolidated financial statements. When reviewing the university expenses by functional classification as noted in the "*Expenses by Functional Classification*", the university spends 41 percent of its resources on academic activities including instruction and departmental research, libraries and other academic support and student aid and services. Sponsored research represents 10 percent and health care 34 percent of spending. Sponsored research and health care activities are integral to the academic and learning experiences at USC.

USC Expenses by Functional Classification

For period ending June 30, 2017



Physical Capital

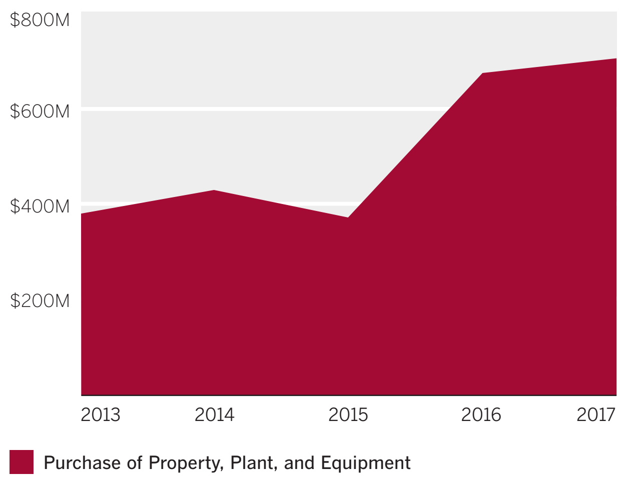
Capital spending on facilities in fiscal year 2017 totaled $691 million, which represents an increase in spending level of 4.7 percent when compared to 2016 capital spend of $660 million. Refer to the graphic for capital spending by fiscal year.

The largest share of the university's capital spending was used to fund projects related to undergraduate residences – the USC Village. In September 2014, the university began construction on USC Village, a 1.2 million square-foot residential and retail center directly adjacent to USC's University Park Campus on 15 acres of land owned by the university. The USC Village has over 148,000 square feet of retail space on the ground floor, with student housing located on the four floors above. The $650 million project is the biggest development in the history of USC.

The university's ambitious renovation and building plans were funded by a combination of gifts, debt, and funds from the operating budget. An important funding component of the university's capital program is external debt through the capital markets. Depending on market conditions and funding purpose, USC also issues tax-exempt debt through the California Educational Facilities Authority (CEFA). Tax-exempt debt is a critical funding source to maintain low costs of capital. This allows the university to maximize the use of its resources in the fulfillment of its mission of teaching and research.

On August 15, 2016, the university issued $723 million of taxable bonds (Series 2016) to refinance USC's Series 2007A, Series 2009A and Series 2009B bonds. This bond transaction achieved a low interest rate, and generated approximately $189 million of net present value savings for USC. During fiscal year 2017, USC issued $402 million of taxable bonds to support the university's capital program. The university received strong bond ratings of Aa1 and AA from Moody's and Standard & Poor's, respectively. One key credit strength noted by Moody's is the close integration of the university's operations and health care system. Refer to the graphic for capital spending by year, dating back to fiscal year 2013.

USC Capital Spending by Fiscal Year



Endowment

The endowment provides an important source of support for the academic programs of the university. To balance current and future needs, USC employs investment and spending policies designed to preserve endowment asset values while providing a substantial flow of income. At June 30, 2017, net assets in the endowment totaled approximately $5.1 billion, an increase of approximately $500 million or 11.3 percent from the June 30, 2016, endowment balance of $4.6 billion.

Investment Performance

For the fiscal year ending June 30, 2017, the endowment returned 12.8 percent. The global equity, private equity, and natural resource programs had the largest contribution to the return. Over the last 10 years, the endowment earned 4.9 percent on an annualized basis, which compares favorably to a 60 percent global stocks – 40 percent global bonds benchmark, which generated a 4.5 percent annualized return.

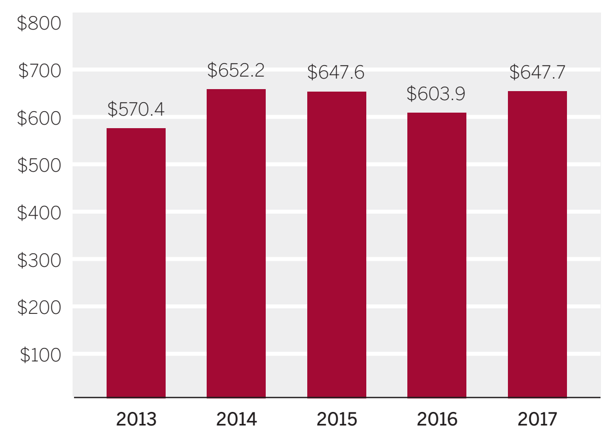
Endowment Spending

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

For the 2017 fiscal year, the Board of Trustees approved current distribution of 104 percent of the prior year's payout, within a minimum of 4 percent and a maximum of 6 percent of the average market value for the previous 12 calendar quarters. Under the provisions of the spending rule, $28.87 was distributed to each time-weighted unit for a total spending rule allocation of $224.7 million. Investment income amounting to $3.91 per time-weighted unit was earned, totaling $30.5 million, and $194 million was appropriated for current operations from cumulative gains of pooled investments.

Endowment pool earnings allocated for spending in fiscal year 2017 represent 4.6 percent of the market value of the endowment pool at June 30, 2017.

USC Endowment Pool Market Value per Share



Asset Allocation

The endowment has a long-term investment horizon and employs investment strategies that provide varying degrees of liquidity. The USC asset allocation table below displays the endowment's allocation to their respective policy weights as of June 30, 2017. USC's investments in global equity and private equity are considered growth assets and are instrumental in driving the endowment's long-term returns. Investments in global fixed income are included to provide diversification and liquidity, whereas absolute return is intended to dampen volatility during turbulent markets. Natural resources and real estate provide exposure to long-term growth opportunities while maintaining some inflation-sensitivity, and cash is used to meet operational needs.

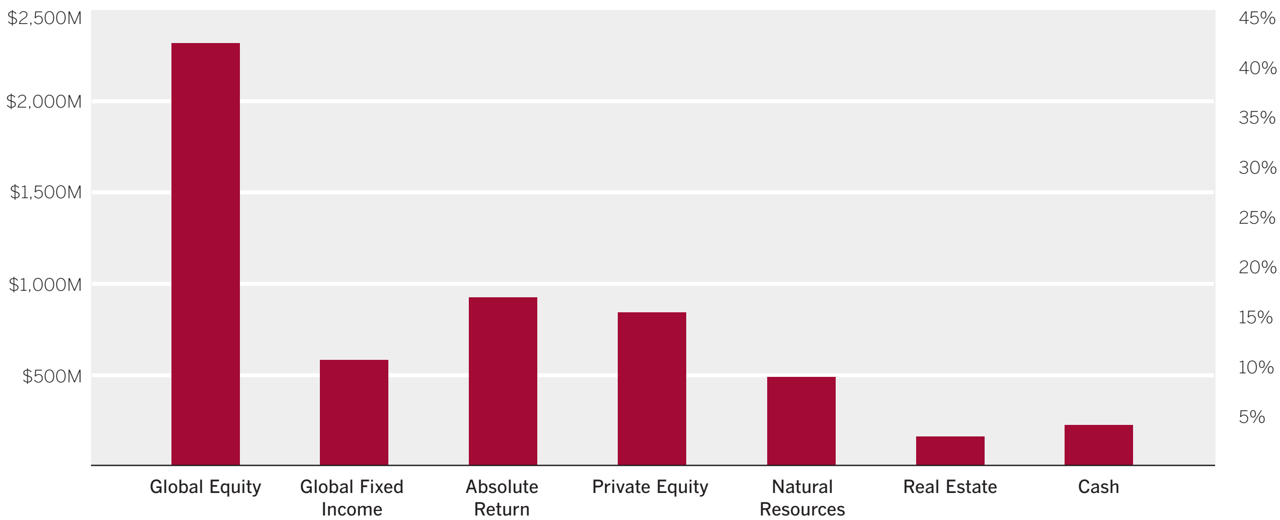
USC Asset Allocation

As of June 30, 2017

Investment Strategy	Policy Weights
Global Equity	40.0%
Global Fixed Income	9.0%
Absolute Return	18.0%
Private Equity	16.0%
Natural Resources	9.0%
Real Estate	6.0%
Cash	2.0%
Total	**100.0%**

USC Endowment

Actual Market Value and Allocation % as of June 30, 2017



The table above displays the endowment market value as of June 30, 2017.

USC's global equity program performed strongly during this past fiscal year. The US and non-US developed market returns contributed significantly to these results. The program has returned 4.2 percent over 10 years.

The endowment's global fixed income program remains focused on corporate, high-yield and emerging market bonds. The program contributed positively to the endowment's fiscal year return. For the last 10 years, fixed income has generated a 5.5 percent return.

USC's absolute return program is expected to generate uncorrelated excess returns. The program has succeeded in generating a positive 4.9 percent return over 10 years while providing diversification to other investment programs.

The private equity program investments have seven-to-10 year investment horizons. The private equity program has two main sub strategies: buyout and venture capital. The program's 10-year return is 10.7 percent. The venture capital segment is the primary contributor to the program's 10-year return.

USC's natural resources program also has a seven-to-10 year investment horizon. Energy price volatility has resulted in the program having mixed short-term results, but the program remains a positive contributor to the endowment's long-term performance. In the 10 years ending June 30, 2017, the program returned 4.7 percent.

The real estate program focuses more on capital appreciation strategies rather than income-generating properties. Consistent with the other private market investments, long-term results are more indicative of the program's success. While disappointing, the 0.7 percent 10-year return remains positive.

Endowment Summary

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

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

Report of Independent Auditors

To the Board of Trustees of the University of Southern California

We have audited the accompanying consolidated financial statements of the University of Southern California and its subsidiaries (collectively "The University"), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows, which appear on pages 11 through 35, 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 general 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.

Auditor's 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University has changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2017. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Los Angeles, California
October 12, 2017

Consolidated Balance Sheets

in thousands

		June 30 2017	June 30 2016
	Assets		
1	Cash and cash equivalents	$783,505	$356,881
2	Accounts receivable, net	406,630	383,714
3	Notes receivable, net	72,950	75,648
4	Pledges receivable, net	628,633	663,803
5	Investments	5,770,926	5,315,745
6	Inventories, prepaid expenses and other assets	288,969	256,489
7	Property, plant and equipment, net	4,009,596	3,582,465
8	**Total Assets**	**$11,961,209**	**$10,634,745**
	Liabilities		
9	Accounts payable	$308,480	$299,975
10	Accrued liabilities	564,341	552,844
11	Refundable advances	18,190	19,853
12	Deposits and deferred revenue	246,641	200,625
13	Actuarial liability for annuities payable	124,277	146,598
14	Federal student loan funds	65,649	68,871
15	Asset retirement obligations	121,085	115,828
16	Capital lease obligations	72,606	126,995
17	Bonds and notes payable	1,656,279	1,216,588
18	Other liabilities	3,443	4,146
19	**Total Liabilities**	**3,180,991**	**2,752,323**
	Net Assets		
20	Without donor restrictions	4,151,215	3,699,268
21	With donor restrictions	4,629,003	4,183,154
22	**Total Net Assets**	**8,780,218**	**7,882,422**
23	**Total Liabilities and Net Assets**	**$11,961,209**	**$10,634,745**

The accompanying notes are an integral part of this statement.

Consolidated Statements of Activities

in thousands

		Year Ended June 30, 2017		
		Without Donor Restrictions	With Donor Restrictions	Total Net Assets
	Operating			
	Revenues:			
1	Student tuition and fees	$1,899,584		$1,899,584
2	Less financial aid	(510,550)		(510,550)
3	Net student tuition and fees	1,389,034		1,389,034
4	Health care services	1,552,230		1,552,230
5	Contracts and grants	475,185		475,185
6	Auxiliary enterprises	346,401		346,401
7	Sales and services	158,140		158,140
8	Contributions	281,084		281,084
9	Other	113,652		113,652
10	Allocation of endowment spending	227,920		227,920
11	Total Revenues	4,543,646		4,543,646
12	Net assets released from restrictions	141,320	($141,320)	
13	**Total Revenues and reclassifications**	**4,684,966**	**(141,320)**	**4,543,646**
	Expenses:			
14	Salaries and benefits	2,532,294		2,532,294
15	Operating expenses	1,486,579		1,486,579
16	Depreciation	245,411		245,411
17	Interest on indebtedness	68,009		68,009
18	**Total Expenses**	**4,332,293**		**4,332,293**
19	**Increase (decrease) in Net Assets from operating activities**	**352,673**	**(141,320)**	**211,353**
	Non-operating			
20	Allocation of endowment spending to operations	(91,670)	(136,250)	(227,920)
21	Changes in funding status of defined benefit plan	(38,376)		(38,376)
22	Investment and endowment income	81,913	2,170	84,083
23	Net appreciation in fair value of investments	162,141	418,767	580,908
24	Contributions	22,547	306,378	328,925
25	Present value adjustment to annuities payable		(3,896)	(3,896)
26	Loss on bond refunding	(37,281)		(37,281)
27	**Increase in Net Assets from non-operating activities**	**99,274**	**587,169**	**686,443**
28	**Total increase in Net Assets**	**451,947**	**445,849**	**897,796**
29	Beginning Net Assets	3,699,268	4,183,154	7,882,422
30	**Ending Net Assets**	**$4,151,215**	**$4,629,003**	**$8,780,218**

The accompanying notes are an integral part of this statement.

Consolidated Statements of Activities

in thousands

		Without Donor Restrictions	With Donor Restrictions	Total Net Assets
				Year Ended June 30, 2016
	Operating			
	Revenues:			
1	Student tuition and fees	$1,793,219		$1,793,219
2	Less financial aid	(483,068)		(483,068)
3	Net student tuition and fees	1,310,151		1,310,151
4	Health care services	1,467,336		1,467,336
5	Contracts and grants	434,746		434,746
6	Auxiliary enterprises	318,525		318,525
7	Sales and services	133,901		133,901
8	Contributions	329,449		329,449
9	Other	118,368		118,368
10	Allocation of endowment spending	207,535		207,535
11	Total Revenues	4,320,011		4,320,011
12	Net assets released from restrictions	112,652	($112,652)	
13	**Total Revenues and reclassifications**	**4,432,663**	**(112,652)**	**4,320,011**
	Expenses:			
14	Salaries and benefits	2,465,390		2,465,390
15	Operating expenses	1,404,393		1,404,393
16	Depreciation	208,069		208,069
17	Interest on indebtedness	73,975		73,975
18	**Total Expenses**	**4,151,827**		**4,151,827**
19	**Increase (decrease) in Net Assets from operating activities**	**280,836**	**(112,652)**	**168,184**
	Non-operating			
20	Allocation of endowment spending to operations	(82,372)	(125,163)	(207,535)
21	Changes in funding status of defined benefit plan	(27,552)		(27,552)
22	Investment and endowment income	63,413	917	64,330
23	Net depreciation in fair value of investments	(38,206)	(86,534)	(124,740)
24	Contributions	20,263	255,234	275,497
25	Present value adjustment to annuities payable		9,291	9,291
26	**(Decrease) increase in Net Assets from non-operating activities**	**(64,454)**	**53,745**	**(10,709)**
27	**Total increase (decrease) in Net Assets**	**216,382**	**(58,907)**	**157,475**
28	Beginning Net Assets	3,482,886	4,242,061	7,724,947
29	**Ending Net Assets**	**$3,699,268**	**$4,183,154**	**$7,882,422**

The accompanying notes are an integral part of this statement.

Consolidated Statements of Cash Flows

in thousands

		Year Ended June 30, 2017	Year Ended June 30, 2016
	Cash Flows from Operating Activities		
1	Change in Net Assets	$897,796	$157,475
	Adjustments to reconcile change in net assets to net cash provided by operating activities:		
2	Depreciation and amortization	245,411	208,069
3	Loss on the disposal/sale of plant assets	6,560	1,128
4	In-kind receipt of property, plant and equipment	(3,205)	(2,825)
5	Maturities and present value adjustment to annuities payable	3,685	(7,486)
6	Increase in accounts receivable	(22,916)	(20,175)
7	Increase in pledges receivable	(82,942)	(222,392)
8	(Decrease) increase in inventories, prepaid expenses and other assets	(10,848)	18,744
9	Increase (decrease) in accounts payable	28,391	(6,775)
10	(Decrease) increase in accrued liabilities	(44,529)	40,370
11	(Decrease) increase in refundable advances	(1,663)	1,300
12	Increase in deposits and deferred revenue	46,016	30,361
13	(Decrease) increase in other liabilities	(703)	198
14	Contributions restricted for property, plant and equipment and permanent investment	(244,298)	(194,947)
15	Net realized gain on sale of investments	(128,978)	(166,740)
16	Net unrealized (appreciation) depreciation in investments	(452,088)	291,695
17	**Net cash provided by operating activities**	**235,689**	**128,000**
	Cash Flows from Investing Activities		
18	Proceeds from note collections	14,584	14,941
19	Notes issued	(11,436)	(8,531)
20	Proceeds from sale and maturity of investments	5,476,450	4,860,425
21	Purchase of investments	(5,327,902)	(4,753,532)
22	Purchase of property, plant and equipment	(690,526)	(660,370)
23	**Net cash used in investing activities**	**(538,830)**	**(547,067)**
	Cash Flows from Financing Activities		
	Contributions restricted for permanent investment:		
24	Endowment	244,180	272,399
25	Plant	117,402	128,419
26	Trusts and other	830	1,338
27	Repayments of capital lease obligation	(54,389)	
28	Repayment of long-term debt	(673,930)	(34,932)
29	Proceeds from issuance of long-term debt	1,124,900	35,467
30	(Decrease) increase in federal student loan funds	(3,222)	676
31	Investment (loss) gain on annuities payable	(17,414)	10,163
32	Payment on annuities payable	(11,269)	(13,939)
33	Increase to annuities payable resulting from new contributions	2,677	5,397
34	**Net cash provided by financing activities**	**729,765**	**404,988**
35	**Net increase (decrease) in cash and cash equivalents**	**426,624**	**(14,079)**
36	**Cash and cash equivalents at beginning of year**	**356,881**	**370,960**
37	**Cash and cash equivalents at end of year**	**$783,505**	**$356,881**

The accompanying notes are an integral part of this statement.

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 (the "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 expenditures 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 which are included in with donor restrictions net assets.

Measure of Operations:

The university's measure of operations as presented in the consolidated statement 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 statement of activities by natural classification.

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

Other accounting policies:

Cash equivalents consist of highly liquid investments with original maturities of three months or less. The university has classified all cash and cash equivalents as Level I financial instruments.

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.

Notes to Consolidated Financial Statements

Note 1 (continued)

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

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

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

The university applies the authoritative guidance contained in FASB ASC 820-10, *Fair Value Measurements and Disclosures*, for estimating the fair value of investments in investment funds that have calculated Net Asset Value (NAV) per share in accordance with FASB ASC 946-10, Financial Services-Investment Companies (formerly the American Institute of 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, 2017 and 2016, the fair value of all such investments in investment funds has been determined by using NAV as a practical expedient.

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

Property, plant and equipment, including collections of works of art and historical treasures, are stated at cost or fair value at the date of contribution, plus the estimated value of any associated legal retirement obligations, less accumulated depreciation, computed on a straight-line basis over the estimated useful or component lives of the assets (equipment and library books useful lives ranging from 4 to 10 years and buildings component lives ranging from 5 to 50 years). Equipment is removed from the records at the time of disposal. The university follows the policy of recording contributions of long-lived assets directly in invested in plant assets when the purpose or time restriction is met instead of recognizing the contribution over the useful life of the asset.

The university's split interest agreements with donors consist primarily of gift annuities, unitrusts, pooled income funds and life estates. For irrevocable agreements, assets contributed are included in the university's investments and stated at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially-determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is discounted at an appropriate risk-adjusted rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on split-interest agreements range from 2.7% to 9.5%. 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. Included in the university's assets held by other trustees are split interest agreements.

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, 2017 and 2016, the university recognized accretion expense related to the

Notes to Consolidated Financial Statements

Note 1 (continued)

conditional asset retirement obligations of approximately $5,973,000 and $5,745,000, respectively. For the years ended June 30, 2017 and 2016, the university settled asset retirement obligations of approximately $800,000 and $1,240,000, respectively. As of June 30, 2017 and 2016, included in the consolidated balance sheets are asset retirement obligations of $121,085,000 and $115,828,000, respectively.

Student tuition and fees are recorded as revenues during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

Sponsored research agreements recognize contracts and grants revenue as it is earned through expenditure in accordance with the agreement. Any funding received in advance of expenditure is recorded as a refundable advance. Departmental 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.

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

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

Contributions of long-lived assets with no donor-imposed time restrictions are reported as without donor restrictions revenue 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 with donor restrictions revenue. The donor restricted net assets resulting from these contributions are released to without donor restricted net assets 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 with donor restrictions revenue.

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. Net patient service revenue is reported as estimated net realizable amounts from patients, third party payors, government programs and others in the period in which services are provided. The majority of the health care 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, discounts from charges and historical costs. Amounts received under the Medicare program are subject to retroactive settlements based on review and final determination by program intermediaries or their agents. Provisions for contractual adjustments and retroactive settlements related to those 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. Health care services revenues also include the revenues associated with the professional services agreement with the County of Los Angeles.

Allowances for doubtful accounts are based upon management's assessment of historical and expected net collections considering historical business and economic conditions. Periodically throughout the year, management assesses the adequacy of the allowances for doubtful accounts based upon historical write-off experience. The results of this review are then used to make any modifications to the allowance for doubtful accounts.

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

Recent Accounting Pronouncements:

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. In addition, ASU 2014-09 will require new and enhanced disclosures. ASU 2014-09 will become effective for annual reporting periods beginning after December 15, 2017. The university is currently evaluating the effect of adoption to the financial statements.

Notes to Consolidated Financial Statements

Note 1 (continued)

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 clarifies how customers in cloud computing arrangements should determine whether arrangements include a software license. The standard also eliminates the requirement that customers analogize to the leases standard when determining the asset acquired in a software licensing arrangement. ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The university early adopted ASU 2015-05 for fiscal 2016.

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 balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. The university is currently evaluating the effect of adoption to the financial statements.

In July 2016, the university adopted ASU 2014-15 *Presentation of Financial Statements – Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. There was no material impact to the financial statements as a result of adoption.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the university to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories; net assets without donor imposed restrictions and net assets with donor imposed restrictions, among other requirements. The university early adopted ASU 2016-14 in 2017 and applied the changes retrospectively. With the adoption of ASU 2016-14, the university has updated the presentation in its statements of activities to include the reporting of operating subtotals. As a result of adopting this standard, certain prior year amounts were reclassified to conform to the presentation requirements.

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

In January 2017, the FASB issued ASU 2017-02, *Clarifying When a Non-for-Profit Entity that is a General Partner or a Limited Partner Should Consolidate a For Profit Limited Partnership or Similar Entity*, which amends the consolidation guidance for NFP entities in ASC 958-810. The issued final guidance clarifies the model used by NFP entities to evaluate the consolidation of investments in limited partnerships (and limited liability companies that are similar to limited partnerships). Under the new guidance, NFP investors in a limited partnership or a similar entity will continue to apply a presumption that the general partner has control and should consolidate the investments unless substantive kick-out or participate rights held by any limited partners overcome that presumption. If the general partner does not have control, the limited partners have to evaluate whether they have control. If a limited partner has control, the consolidation is required unless the investment is part of a portfolio for which the NFP "portfolio-wide" fair value option has been elected. In that situation, the limited partner can instead report its interest at fair value, mirroring an exception that already exists for NFP general partners.

The new standard also affirms the FASB's intent to remain that NFP "portfolio-wide" fair value option under its new investment recognition and measurement rules that will take effect in fiscal years beginning after December 15, 2018. The new guidance should be adopted at the same time an NFP adopts the FASB's other new consolidation guidance, which is required for fiscal year beginning after December 15, 2016. Early adoption is permitted. NFPs that early-adopt the consolidation guidance should apply the new guidance retrospective to earlier periods affected by that adoption. The university is evaluating the impact that the standard will have on the consolidated financial statements and related disclosures.

Notes to Consolidated Financial Statements

Note 2

Liquidity and Availability:

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

	Year Ended June 30, 2017	Year Ended June 30, 2016
Total assets at year end	$11,961,209	$10,634,745
Less:		
Notes receivable due in more than one year	(14,501)	(15,580)
Pledges receivable due in more than one year	(509,162)	(501,285)
Donor-restricted endowment funds	(3,725,821)	(3,301,292)
Board-designated endowment funds	(1,404,699)	(1,307,422)
Annuities and living trusts	(149,323)	(128,595)
Inventories, prepaid expenses and other assets	(218,417)	(199,661)
Property, plant, and equipment	(4,009,596)	(3,582,465)
Financial assets available at year end for current use	**$1,929,690**	**$1,598,445**

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 2017 and 2016 the Board of Trustees approved current distribution of 104% 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 2017 and 2016 the Board of Trustees approved an endowment pool payout of $28.87 a share and $27.76 a share, for a total spending rule allocation of $225 million and $206 million. As described in Note 6, the university also has unfunded commitments on alternative investments totaling $522 million and $471 million for fiscal year 2017 and 2016.

As part of the university's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the university invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the university has committed lines of credit in the amount of $500 million, which it could draw upon. Additionally, the university has a board-designated endowment of $1.4 billion as of June 30, 2017. Although the university does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure 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 funds 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):

	2017	2016
U.S. Government	$39,909	$35,600
Student and other, net of allowance for doubtful accounts of $12,000 (2017), $10,500 (2016)	152,193	124,708
Patient care, net allowance for doubtful accounts of $10,125 (2017), $21,429 (2016)	214,528	223,406
Total	**$406,630**	**$383,714**

Notes to Consolidated Financial Statements

Note 4

Loans and Notes 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, 2017, consist of the following (in thousands):

	June 30, 2017		
	Financing Receivables, Gross	Allowance for Doubtful Accounts	Net
Perkins loans	$47,350		$47,350
University student loans	15,761	($4,432)	11,329
Other student loans	14,271		14,271
Total student loans	**77,382**	**(4,432)**	**72,950**
Faculty and other student loans	33,182		33,182
Total	**$110,564**	**($4,432)**	**$106,132**

Long-term financing receivables as of June 30, 2016, consist of the following (in thousands):

	June 30, 2016		
	Financing Receivables, Gross	Allowance for Doubtful Accounts	Net
Perkins loans	$47,854		$47,854
University student loans	18,063	($4,894)	13,169
Other student loans	14,625		14,625
Total student loans	**80,542**	**(4,894)**	**75,648**
Faculty and other student loans	33,583		33,583
Total	**$114,125**	**($4,894)**	**$109,231**

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 represents 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 loans are loans related to the Federal Health Professional Student Loan Program and Loans for Disadvantaged Students.

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

Notes to Consolidated Financial Statements

Note 4 (continued)

The following table illustrates the aging analysis of receivables as of June 30, 2017 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	$1,174	$333	$6,719	$39,124	$47,350
University student loans	297	39	8,633	6,792	15,761
Other student loans	878	5	338	13,050	14,271
Total student loans	2,349	377	15,690	58,966	77,382
Faculty and other loans				33,182	33,182
Total	$2,349	$377	$15,690	$92,148	$110,564

The following table illustrates the aging analysis of receivables as of June 30, 2016 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	$1,239	$376	$7,296	$38,943	$47,854
University student loans	298	40	9,400	8,325	18,063
Other student loans	422	4	673	13,526	14,625
Total student loans	1,959	420	17,369	60,794	80,542
Faculty and other loans				33,583	33,583
Total	$1,959	$420	$17,369	$94,377	$114,125

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, 2017 and 2016, 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 $33,182,000 and $33,583,000 were outstanding as of June 30, 2017 and 2016, 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, 2017, 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 of 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 (in thousands):

	2017	2016
In one year or less	$119,471	$162,518
Between one year and five years	372,118	350,491
More than five years	279,057	293,970
Less: discount	(117,951)	(117,910)
Less: allowance	(24,062)	(25,266)
Total	$628,633	$663,803

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

	2017	2016
Endowment for departmental programs and activities	$316,789	$330,234
Endowment for scholarship	27,487	10,550
Building construction	125,398	166,813
Departmental programs and activities	158,959	156,206
Total	$628,633	$663,803

Conditional pledges for the university, which depend on the occurrence of specified future and uncertain events, at June 30, 2017 and 2016, was $392,958,000 and $406,925,000, respectively. The majority of these conditional pledges are related to construction of the Institute for Transformative Medicine, as well as the renovation of the Los Angeles Coliseum.

Note 6

Investments:

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

	2017	2016
Equities	$2,129,926	$1,863,520
Fixed income securities	1,014,546	1,051,915
Alternative investments:		
Hedge funds	1,056,032	914,369
Private capital	1,226,246	1,126,585
Real estate and other	198,056	209,638
Assets held by other trustees	146,120	149,718
Total	$5,770,926	$5,315,745

Notes to Consolidated Financial Statements

Note 6 (continued)

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, 2017 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	$1,935,088	$699	$83,402	$110,737	$2,129,926
Fixed income securities	315,350	669,907	29,289		1,014,546
Hedge funds				1,056,032	1,056,032
Private capital				1,226,246	1,226,246
Real estate and other			43,600	154,456	198,056
Assets held by other trustees			146,120		146,120
Total investments	**$2,250,438**	**$670,606**	**$302,411**	**$2,547,471**	**$5,770,926**

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, 2016 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	$1,695,867	$1,155	$73,602	$92,896	$1,863,520
Fixed income securities	260,271	782,173	9,471		1,051,915
Hedge funds				914,369	914,369
Private capital				1,126,585	1,126,585
Real estate and other			37,545	172,093	209,638
Assets held by other trustees			149,718		149,718
Total investments	**$1,956,138**	**$783,328**	**$270,336**	**$2,305,943**	**$5,315,745**

The following table summarizes the university's Level III reconciliation of investments for the year ended June 30, 2017 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments								
Equities	$73,602		($7)		$9,807			$83,402
Fixed income securities	9,471	$49,242	(30,306)	$481	99	$302		29,289
Real estate and other	37,545	8,883	(2,891)	(309)	(184)	660	($104)	43,600
Assets held by other trustees	149,718	272	(4,895)	(578)	2,263		(660)	146,120
Total	**$270,336**	**$58,397**	**($38,099)**	**($406)**	**$11,985**	**$962**	**($764)**	**$302,411**

The following table summarizes the university's Level III reconciliation of investments for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments								
Equities	$75,702				($2,100)			$73,602
Fixed income securities	8,910	$2,694	($3,197)	($728)	1,792			9,471
Real estate and other	36,936	1,543	(525)		(409)			37,545
Assets held by other trustees	151,285	4,426	(411)	2	(5,107)		($477)	149,718
Total	**$272,833**	**$8,663**	**($4,133)**	**($726)**	**($5,824)**	**$ -**	**($477)**	**$270,336**

Notes to Consolidated Financial Statements

Note 6 (continued)

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.

The following table lists investments by major category for the year ended June 30, 2017:

At June 30, 2017

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Distressed Obligation Partnerships	U.S. and Non-U.S. Distressed Debt Securities	$25,405,000	$21,601,000	Approximately 2 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Hedge Funds	U.S. and Non-U.S. Investments in Relative Value, Event Driven, Long/Short, and Directional Strategies	$1,056,032,000	$26,700,000	99.8% of NAV has an open ended life and 0.2% of NAV will be liquidated on an undetermined basis.	Ranges between bi-monthly redemption with 75 days notice, monthly redemption with 90 days notice, quarterly redemption with up to 120 days notice, semi-annual redemption with 60 to 90 days notice, annual redemption with up to 120 days notice, biannual redemption with 90 days notice, and 5-year lockup with 90 days notice.	17% of NAV is locked-up for 3 months, 46% of NAV is locked-up for 1 year, and 37% of NAV is locked-up for more than 1 year.	None
Natural Resources Partnerships	U.S. and Non-U.S. Investments in Upstream, Midstream, and Downstream Natural Resources Investments	$447,091,000	$228,951,000	Approximately 4 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Private Capital Partnerships	U.S. and Non-U.S. Private Equity and Venture Capital Investments	$753,750,000	$159,195,000	Approximately 3 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Private Real Estate Partnerships	U.S. and Non-U.S. Real Estate	$154,342,000	$85,781,000	Approximately 3 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Equity Funds	U.S. and Non-U.S. Equity Securities	$110,737,000	Not Applicable	Open Ended	Minimum Monthly	None	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	$114,000	Not Applicable	Open Ended	Monthly	None	None
Total		$2,547,471,000	$522,228,000				

Notes to Consolidated Financial Statements

Note 6 (continued)

The following table lists investments by major category for the year ended June 30, 2016:

At June 30, 2016

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Distressed Obligation Partnerships	U.S. and Non-U.S. Distressed Debt Securities	$36,631,000	$22,773,000	Approximately 2 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Hedge Funds	U.S. and Non-U.S. Investments in Relative Value, Event Driven, Long/Short, and Directional Strategies	$914,369,000	$18,000,000	99.7% of NAV has an open ended life and 0.3% of NAV will be liquidated on an undetermined basis.	Ranges between bi-monthly redemption with 75 days notice, monthly redemption with 90 days notice, quarterly redemption with up to 90 days notice, semi-annual redemption with 60 to 90 days notice, and annual redemption with up to 180 days notice and 5-year lockup with 90 days notice.	17% of NAV is locked-up for 3 months, 53% of NAV is locked-up for 1 year, and 30% of NAV is locked-up for more than 1 year.	None
Natural Resources Partnerships	U.S. and Non-U.S. Investments in Upstream, Midstream, and Downstream Natural Resources Investments	$367,040,000	$188,397,000	Approximately 5 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Private Capital Partnerships	U.S. and Non-U.S. Private Equity and Venture Capital Investments	$722,914,000	$164,933,000	Approximately 3 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Private Real Estate Partnerships	U.S. and Non-U.S. Real Estate	$170,932,000	$77,113,000	Approximately 3 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Equity Funds	U.S. and Non-U.S. Equity Securities	$92,896,000	Not Applicable	Open Ended	Minimum Monthly	None	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	$1,161,000	Not Applicable	Open Ended	Monthly	None	None
Total		$2,305,943,000	$471,216,000				

Notes to Consolidated Financial Statements

Note 7

Endowment:

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

Donor-restricted and board-designated endowment funds are summarized as follows for the year ended June 30, 2017 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	$1,335,689	$3,603,416	$4,939,105
Non-pooled	69,010	122,405	191,415
	$1,404,699	$3,725,821	$5,130,520

Donor-restricted and board-designated endowment funds are summarized as follows for the year ended June 30, 2016 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	$1,230,571	$3,195,903	$4,426,474
Non-pooled	76,851	105,389	182,240
	$1,307,422	$3,301,292	$4,608,714

Pooled investments represent donor-restricted and board-designated endowment funds which have been commingled in a unitized pool (unit market value basis) for purposes of investment. At June 30, 2017 and 2016, the pool is comprised of cash and cash equivalents (0.43%) and (2.30%), equities (53.89%) and (51.97%), fixed income securities (12.03%) and (9.87%), alternative investments (30.64%) and (32.11%) and real estate and other investments (3.01%) and (3.75%), 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 market value at June 30, 2017 and 2016 was $647.73 and $603.87, 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.

Endowment net asset composition by type of funds as of June 30, 2017 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Endowment
Donor-restricted endowment funds		$3,725,821	$3,725,821
Board-designated endowment funds	$1,404,699		1,404,699
Total	$1,404,699	$3,725,821	$5,130,520

Endowment net asset composition by type of funds as of June 30, 2016 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Endowment
Donor-restricted endowment funds		$3,301,292	$3,301,292
Board-designated endowment funds	$1,307,422		1,307,422
Total	$1,307,422	$3,301,292	$4,608,714

Notes to Consolidated Financial Statements

Note 7 (continued)

Changes in endowment net assets for the year ended June 30, 2017 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Endowment
Endowment net assets at July 1, 2016	**$1,307,422**	**$3,301,292**	**$4,608,714**
Total investment return	185,961	388,500	574,461
Contributions and transfers	2,986	172,279	175,265
Appropriation of endowment assets for expenditure	(91,670)	(136,250)	(227,920)
Endowment net assets at June 30, 2017	**$1,404,699**	**$3,725,821**	**$5,130,520**

Changes in endowment net assets for the year ended June 30, 2016 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Endowment
Endowment net assets at July 1, 2015	**$1,337,683**	**$3,371,828**	**$4,709,511**
Total investment return	(4,870)	(102,038)	(106,908)
Contributions and transfers	56,981	156,665	213,646
Appropriation of endowment assets for expenditure	(82,372)	(125,163)	(207,535)
Endowment net assets at June 30, 2016	**$1,307,422**	**$3,301,292**	**$4,608,714**

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 (in thousands):

	2017	2016
Restricted for scholarship support	$872,922	$779,081
Restricted for faculty support	896,990	800,488
Restricted for program support	1,955,909	1,721,723
Total endowment assets with donor restrictions	**$3,725,821**	**$3,301,292**

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 donor-restricted net assets. Deficits of this nature exist in various donor-restricted endowment funds, which together have an original value of $53,815,000 and a current value of $52,066,000 with a deficiency of $1,749,000 and an original value of $347,348,000 and a current fair value of $332,070,000 and a deficiency of $15,278,000 as of June 30, 2017 and 2016, 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 adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under these policies, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The university expects its endowment funds over time to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

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

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

For the 2017 fiscal year, the Board of Trustees approved current distribution of 104% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provisions of the spending rule, $28.87 was distributed to each time-weighted unit for a total spending rule allocation of $224,725,000. Investment income amounting to $3.91 per time-weighted unit was earned, totaling $30,450,000, and $194,275,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2017 represent 4.55% of the market value of the endowment pool at June 30, 2017.

Notes to Consolidated Financial Statements

Note 7 (continued)

For the 2016 fiscal year, the Board of Trustees approved current distribution of 104% 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, $27.76 was distributed to each time-weighted unit for a total spending rule allocation of $205,553,000. Investment income amounting to $3.58 per time-weighted unit was earned, totaling $26,539,000 and $179,014,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2016 represent 4.64% of the market value of the endowment pool at June 30, 2016.

Note 8

Property, plant and equipment:

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

	2017	2016
Land and improvements	$196,890	$188,139
Buildings and improvements	4,659,505	3,658,581
Buildings under capital leases	65,822	126,518
Equipment	655,391	603,301
Library books and collections	378,402	357,332
Construction-in-progress	415,925	802,841
	6,371,935	5,736,712
Less: Accumulated depreciation	2,362,339	2,154,247
Total	$4,009,596	$3,582,465

Note 9

Student Financial Aid:

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, 2017, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	$278,894	$154,894	$433,788
Endowed scholarships	24,177	13,428	37,605
External financial aid	25,176	13,981	39,157
Total	$328,247	$182,303	$510,550

Financial aid for the year ended June 30, 2016, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	$262,375	$140,832	$403,207
Endowed scholarships	22,421	12,035	34,456
External financial aid	29,546	15,859	45,405
Total	$314,342	$168,726	$483,068

Note 10

Leases:

The university is the lessee of various equipment and space under non-cancelable operating and capital leases. Operating lease rental expense for the years ended June 30, 2017 and 2016, was approximately $34,154,000 and $31,858,000, respectively. Space leases contain customary escalation clauses, which are included in annual aggregate minimum rentals.

Future aggregate minimum rental payments as of June 30, 2017, under operating and capital leases are as follows (in thousands):

Future minimum rental payments:	Operating	Capital
2018	$37,726	$1,559
2019	35,307	1,600
2020	33,859	1,642
2021	25,115	1,685
2022	23,196	1,730
Thereafter	55,916	668,069
	211,119	676,285
Less: Interest on capital leases		(603,679)
Total	$211,119	$72,606

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, 2017 and 2016, is $72,606,000 and $71,018,000, respectively .

Notes to Consolidated Financial Statements

Note 11

Bonds and notes payable (in thousands):

	Interest %	Maturity	2017	2016
California Educational Facilities Authority Revenue Bonds and Notes:				
Series 2007A	4.50-4.75	2034-2038	$ –	$257,085
Premium				1,850
Series 2009A	5.00-5.25	2039-2040	–	217,605
Discount				(739)
Series 2009B	5.00-5.25	2039-2040	–	197,900
Premium				2,569
Series 2009C	5.25	2025	82,305	82,305
Premium			4,271	4,881
Series 2012A	5.00	2024	41,595	41,595
Premium			6,415	6,968
Series 2015A	5.00	2026	42,960	42,960
Premium			8,216	9,200
University of Southern California Bonds:				
Series 1998 Taxable	6.26	2019	4,585	4,585
Discount			(7)	(10)
Series 2011 Taxable	5.25	2112	300,000	300,000
Discount			(2,532)	(2,559)
Series 2016 Taxable	3.028	2040	722,580	–
Discount			(3,554)	
Series 2017 Taxable	3.841	2048	402,320	–
Discount			(1,799)	
California Infrastructure Revenue Bonds USC (USC – Soto Street Health Sciences):				
Series 2010 (Soto)	3.25-5.00	2017-2032	29,620	30,960
Premium			1,804	1,933
Notes Payable	5.00	2017-2020	17,500	17,500
			1,656,279	1,216,588
Less: current portion of long-term debt			1,400	1,340
Total			**$1,654,879**	**$1,215,248**

Principal payment requirements relating to bonds and notes payable, after giving effect to refunding, for the next five fiscal years are approximately: 2018 $1,400,000; 2019 $6,055,000; 2020 $19,040,000; 2021 $1,620,000; 2022 $1,700,000; thereafter $1,613,650,000.

Interest payments for fiscal year 2017 and 2016 were $56,759,000 and $60,129,000, respectively.

The university has a revolving line of credit with a bank with a maturity date of November 30, 2020. The credit agreement was amended on April 12, 2017, to increase the revolving line of credit to $500,000,000, with all other terms and conditions, including interest rate and maturity, remaining substantially the same. The line of credit accrues interest based on LIBOR and contains a fee on the unused portion of the line of credit. During the years ended June 30, 2017 and 2016, the university did not draw down on the line of credit. The line of credit contains certain restrictive covenants which include a minimum credit ratings of "A" and "A2" from Standard and Poor's and Moody's, as well as a minimum total net assets of $5,500,000,000. USC was in compliance with these covenants during the years ended June 30, 2017 and 2016.

Notes to Consolidated Financial Statements

Note 12

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 or commingled funds. Under the USC Retirement Savings Program, the university makes a 5% non-elective contribution to all eligible employees and also matches dollar for dollar the first 5% of the employees' contributions. Newly hired employees on or after January 1, 2012, will have the university non-elective contribution subject to a four year vesting schedule. Benefits commence upon termination or retirement and pre-retirement survivor death benefits are also provided. Charges to operating activities expenses for the university's share of costs were approximately $155,398,000 and $147,287,000 during the year ended June 30, 2017 and 2016, respectively.

Retirement benefits for hospital employees covered under a collective bargaining agreement with the National Union of Healthcare Workers (NUHW) and employees of USC Verdugo Hills Hospital and University Physician Associates are provided by a defined contribution 401(k) plan through Fidelity investments. Until August 2011, the hospital employees covered under a collective bargaining agreement with California Nurses Association were also covered under this 401(k) plan. Until January 2017, the NUHW employees at Keck Medicine of USC 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. The university makes its contribution following the end of the calendar year and matches 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 makes 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. Effective July 2013, all employees of the USC Verdugo Hills Hospital are eligible to participate in the 401(k) plan. Employees of University Physician Associates are eligible to participate upon employment by USC. They will receive a discretionary employer match of up to 4% of eligible earnings. The university contribution is subject to a five year vesting schedule although previously credited years prior to the Tenet and Verdugo acquisitions have been carried over. Benefits commence at age 59 1/2, termination of employment, or retirement and pre-retirement survivor death benefits are also provided. Charges to operating activities expenses for the university's share of costs were approximately $1,701,000 and $5,268,000 during the year ended June 30, 2017 and 2016, respectively.

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

Change in Projected Benefit Obligation	2017	2016
Benefit obligation at end of prior year	$272,262	$242,426
Interest cost	10,155	10,937
Actuarial (gain) loss	(13,584)	27,704
Benefits paid	(16,976)	(8,805)
Benefit obligation at end of year	**$251,857**	**$272,262**
Change in Plan Assets		
Fair value of plan assets at end of prior year	$173,003	$170,719
Actual return on plan assets	24,947	1,089
Employer contribution	10,000	10,000
Benefits paid	(16,976)	(8,805)
Fair value of plan assets at end of year	**$190,974**	**$173,003**
Reconciliation of Funded Status		
Accumulated benefit obligation at end of year	$251,857	$272,262
Projected benefit obligation at end of year	(251,857)	($272,262)
Fair value of plan assets at end of year	190,974	173,003
Funded status	**($60,883)**	**($99,259)**
Components of Net Periodic Benefit Cost		
Interest cost	$10,155	$10,937
Expected return on plan assets	(11,762)	(11,625)
Amortization of net loss	8,965	5,987
Total benefit cost	**$7,358**	**$5,299**
Amounts recognized in the Statement of Financial Position		
Accrued liabilities	($60,883)	($99,259)
Amounts not yet recognized as components of Net Periodic Benefit Cost		
Net loss	$84,818	$120,552
Changes in the net reduction to Unrestricted Net Assets		
Net (gain) loss	($26,769)	$38,240
Amortization of net loss	(8,965)	(5,987)
Total benefit cost	**($35,734)**	**$32,253**

Note 12 (continued)

The estimated net loss/(gain) and prior service cost for the Plan that will be recognized as components of net periodic benefit cost over the next fiscal year are $5,898,000 and $8,965,000, respectively.

The Plan was amended to freeze benefit accruals for all remaining active union participants effective December 23, 2009, and to provide full vesting for those participants. No special accounting for curtailments, settlements or termination benefits was required during the years ended June 30, 2017 and 2016.

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

	2017	2016
Discount rate	3.80%	4.60%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

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

Discount rate	4.00%	3.80%
Rate of compensation increase	N/A	N/A

Plan Assets

In managing the Plan assets, our 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 our expense and cash flow. The target allocation for pension benefit plan assets is 75% equity securities and 25% fixed income securities.

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

Fair Value

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

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

Notes to Consolidated Financial Statements

Note 12 (continued)

At June 30, 2017, 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		$2,062			$2,062
Equity securities		145,125			145,125
Fixed income securities		43,787			43,787
Total		$190,974			$190,974

At June 30, 2016, 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		$9,310			$9,310
Equity securities		121,342			121,342
Fixed income securities		42,351			42,351
Total		$173,003			$173,003

Allocation of Assets

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

Asset Category	Actual at June 30, 2017	Target at June 30, 2017	Actual at June 30, 2016	Target at June 30, 2016
Short-term investment fund	1.1%	0%	5.4%	0%
Equity securities	76.0%	75.0%	70.1%	75.0%
Fixed income securities	22.9%	25.0%	24.5%	25.0%
Total	100.0%	100.0%	100.0%	100.0%

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

Contributions

No contribution to the Plan was required during the years ended June 30, 2017 and 2016. The university may make discretionary contributions to the Plan during the next fiscal year. This will be reassessed during fiscal year 2018.

Estimated Future Benefit Payments

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

Fiscal Year Ending June 30,	
2018	$10,720
2019	11,214
2020	11,769
2021	12,390
2022	12,947
2023–2027	69,660

Notes to Consolidated Financial Statements

Note 13

Net Assets:

The university's net assets as of June 30, 2017, includes the following (in thousands):

	Year Ended June 30, 2017		
Nature of Specific Net Assets	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Designated	$1,223,092		$1,223,092
Donor-restricted		$125,226	125,226
Pledges		628,633	628,633
Unexpended endowment income	266,144		266,144
Annuity and living trusts		149,323	149,323
Donor-restricted endowment funds		3,725,821	3,725,821
Board-designated endowment funds	1,404,699		1,404,699
Debt service funds	106,380		106,380
Invested in plant	1,150,900		1,150,900
Total	$4,151,215	$4,629,003	$8,780,218

The university's net assets as of June 30, 2016, includes the following (in thousands):

	Year Ended June 30, 2016		
Nature of Specific Net Assets	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Designated	$959,609		$959,609
Donor-restricted		$89,464	89,464
Pledges		663,803	663,803
Unexpended endowment income	239,178		239,178
Annuity and living trusts		128,595	128,595
Donor-restricted endowment funds		3,301,292	3,301,292
Board-designated endowment funds	1,307,422		1,307,422
Debt service funds	111,070		111,070
Invested in plant	1,081,989		1,081,989
Total	$3,699,268	$4,183,154	$7,882,422

Notes to Consolidated Financial Statements

Note 14

Functional Expenses:

Expenses are presented by functional classification in accordance with the overall service mission of the university. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation expense is allocated based on square footage occupancy. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Plant operations and maintenance represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy.

For the year ended June 30, 2017, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fund Raising Activities	Year Ended June 30, 2017
Compensation	$1,698,766	$309,213	$32,920	$2,040,899
Fringe benefits	388,758	92,508	10,129	491,395
Operating expenses	964,585	334,092	14,954	1,313,631
Cost of goods sold	63,389	49,436		112,825
Travel	47,999	11,314	810	60,123
Allocations:				
Depreciation	175,132	70,106	173	245,411
Interest	17,448	50,561		68,009
Plant operations and maintenance	162,641	(162,894)	253	
Total	**$3,518,718**	**$754,336**	**$59,239**	**$4,332,293**

For the year ended June 30, 2016, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fund Raising Activities	Year Ended June 30, 2016
Compensation	$1,591,071	$297,697	$31,464	$1,920,232
Fringe benefits	445,265	90,041	9,852	545,158
Operating expenses	920,278	305,875	12,622	1,238,775
Cost of goods sold	53,137	50,134		103,271
Travel	50,513	10,883	951	62,347
Allocations:				
Depreciation	152,988	54,897	184	208,069
Interest	15,121	58,854		73,975
Plant operations and maintenance	154,704	(154,977)	273	
Total	**$3,383,077**	**$713,404**	**$55,346**	**$4,151,827**

Notes to Consolidated Financial Statements

Note 15

Commitments and Contingencies

At June 30, 2017 and 2016, the university had remaining commitments of approximately $522,228,000 and $471,216,000 with alternative investment managers and/or limited partnerships, respectively.

Contractual commitments for educational plant amounted to approximately $142,456,000 and $428,646,000 at June 30, 2017 and 2016, 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 LAC+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. 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 receives funding or reimbursement from governmental agencies for various activities, which are subject to audit. In addition, certain litigation has been filed against the university and in the opinion of university management, after consultation with legal counsel, the liability, if any, for the aforementioned matters will not have a material effect on the university's financial position.

Note 16

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):

	2017	2016
Current sponsored awards	$756,757	$784,034
Executed grants and contracts for future periods	800,997	626,952
Total	**$1,557,754**	**$1,410,986**

Note 17

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 18

Subsequent events

The university has performed an evaluation of subsequent events through October 12, 2017, which is the date the financial statements were issued.

2018 Summary of Budgeted Operating Revenues and Expenses

2017-18 Budget / in thousands

	Undesignated Budget Education and General			Health Care Services		
	2016-17 Budget	2017-18 Budget	Percent Change	2016-17 Budget	2017-18 Budget	Percent Change
Revenues						
Tuition and Fees	$1,841,132	$1,948,137	5.8%			
Less Student Aid	(436,007)	(462,386)	6.1%			
Net Tuition and Fees	1,405,125	1,485,751	5.7%			
Endowment Income	91,205	92,828	1.8%			
Investment Income	1,450	3,500	141.4%	$145	$145	
Gifts	33,228	40,836	22.9%			
Contracts and Grants - Direct						
Recovery of Indirect Costs:						
Contracts and Grants	127,679	136,906	7.2%			
Endowments/Gifts	19,726	22,051	11.8%			
Auxiliary Enterprises	352,051	386,285	9.7%			
Sales and Service and Other Sources	176,024	181,913	3.3%	1,569,153	1,790,941	14.1%
Total Revenues	**$2,206,488**	**$2,350,070**	**6.5%**	**$1,569,298**	**$1,791,086**	**14.1%**
Expenses						
Compensation:						
Faculty Salaries	$415,112	$443,275	6.8%	$243,579	$269,775	10.8%
Other Salaries and Wages	621,156	648,910	4.5%	480,197	531,542	10.7%
Employee Benefits	282,107	297,800	5.6%	193,112	212,687	10.1%
Total Compensation	**1,318,375**	**1,389,985**	**5.4%**	**916,888**	**1,014,004**	**10.6%**
Current Expense	520,664	576,287	10.7%	519,244	643,632	24.0%
Capital Financing	108,245	126,437	16.8%	19,650	15,134	(23.0%)
Professional Services	79,558	85,062	6.9%	65,093	63,685	(2.2%)
Equipment/Library	46,118	33,483	(27.4%)	4,107	4,752	15.7%
Utilities/Telephone	60,792	62,656	3.1%	9,931	9,724	(2.1%)
Off-campus Facilities	19,313	20,964	8.5%	3,219	3,241	0.7%
Travel	29,358	29,538	0.6%	4,413	2,617	(40.7%)
Rentals and Leases	24,065	25,658	6.6%	26,753	34,297	28.2%
Total Expenses	**$2,206,488**	**$2,350,070**	**6.5%**	**$1,569,298**	**$1,791,086**	**14.1%**

	Designated Budget			Total Budget		
	2016-17 Budget	2017-18 Budget	Percent Change	2016-17 Budget	2017-18 Budget	Percent Change
				$1,841,132	$1,948,137	5.8%
	($92,281)	($87,064)	(5.7%)	(528,288)	(549,450)	4.0%
	(92,281)	(87,064)	(5.7%)	1,312,844	1,398,687	6.5%
	63,568	69,090	8.7%	154,773	161,918	4.6%
				1,595	3,645	128.5%
	292,287	302,272	3.4%	325,515	343,108	5.4%
	429,773	500,171	16.4%	429,773	500,171	16.4%
				127,679	136,906	7.2%
				19,726	22,051	11.8%
				352,051	386,285	9.7%
				1,745,177	1,972,854	13.0%
	$693,347	**$784,469**	**13.1%**	**$4,469,133**	**$4,925,625**	**10.2%**
	$96,941	$103,430	6.7%	$755,632	$816,480	8.1%
	191,641	214,389	11.9%	1,292,994	1,394,841	7.9%
	75,915	86,885	14.5%	551,134	597,372	8.4%
	364,497	**404,704**	**11.0%**	**2,599,760**	**2,808,693**	**8.0%**
	209,773	263,987	25.8%	1,249,681	1,483,906	18.7%
	750	750	0.0%	128,645	142,321	10.6%
	38,135	35,558	(6.8%)	182,786	184,305	0.8%
	21,883	17,750	(18.9%)	72,108	55,985	(22.4%)
				70,723	72,380	2.3%
	23,303	24,452	4.9%	45,835	48,657	6.2%
	32,014	32,414	1.2%	65,785	64,569	(1.8%)
	2,992	4,854	62.2%	53,810	64,809	20.4%
	$693,347	**$784,469**	**13.1%**	**$4,469,133**	**$4,925,625**	**10.2%**

2018 Colleges, Schools, Centers and Institutes

Individual Revenue Center Summary / 2017-18 Budget / in thousands

	USC Annenberg School for Communication and Journalism		USC School of Architecture		USC Bovard College		USC School of Cinematic Arts	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	$62,623	$13,930	$20,951	$1,755	$23,064		$56,277	$12,473
Center	*79,935*	*13,930*	*27,068*	*1,755*	*24,405*		*75,552*	*12,473*
UG Student Aid Fund	*(14,341)*		*(4,708)*		*(964)*		*(15,979)*	
Facilities Improvement Fund	*(2,971)*		*(1,409)*		*(377)*		*(3,296)*	
Indirect	(3,470)		(2,824)		(2,245)		(6,138)	
Participation	*(6,390)*		*(2,824)*		*(2,245)*		*(7,095)*	
Academic Initiatives	*750*						*465*	
Provost's Initiatives								
Graduate Programs	*2,170*						*492*	
Total Revenues	$59,153	$13,930	$18,127	$1,755	$20,819		$50,139	$12,473
Expenses								
Direct	$44,251	$13,930	$12,636	$1,755	$17,149		$32,857	$12,473
Indirect	14,902		5,491		3,670		17,282	
Allocated Central Costs	*13,653*		*4,627*		*3,633*		*14,793*	
Facilities Based	*1,249*		*864*		*37*		*2,489*	
Total Expenses	$59,153	$13,930	$18,127	$1,755	$20,819		$50,139	$12,473

	USC Davis School of Gerontology		USC Dana and David Dornsife College of Letters, Arts and Sciences		USC School of Dramatic Arts		USC Suzanne Dworak-Peck School of Social Work	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	$19,911	$8,373	$323,563	$113,401	$12,996	$1,103	$146,236	$11,857
Center	*22,977*	*8,373*	*478,884*	*113,401*	*19,200*	*1,103*	*151,151*	*11,857*
UG Student Aid Fund	*(2,218)*		*(136,253)*		*(5,402)*		*(85)*	
Facilities Improvement Fund	*(848)*		*(19,068)*		*(802)*		*(4,830)*	
Indirect	379		(6,599)		(1,381)		(7,867)	
Participation	*(1,941)*		*(45,424)*		*(1,806)*		*(8,751)*	
Academic Initiatives	*1,350*		*18,400*		*425*			
Provost's Initiatives			*425*				*113*	
Graduate Programs	*970*		*20,000*				*771*	
Total Revenues	$20,290	$8,373	$316,964	$113,401	$11,615	$1,103	$138,369	$11,857
Expenses								
Direct	$15,378	$8,373	$200,043	$113,401	$7,813	$1,103	$126,915	$11,857
Indirect	4,912		116,921		3,802		11,454	
Allocated Central Costs	*4,008*		*100,018*		*2,888*		*10,890*	
Facilities Based	*904*		*16,903*		*914*		*564*	
Total Expenses	$20,290	$8,373	$316,964	$113,401	$11,615	$1,103	$138,369	$11,857

	USC Gould School of Law		Graduate Programs		USC Institute for Creative Technologies		USC Iovine and Young Academy	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	$51,672	$4,930	$45,734	$275	$4,773	$30,316	$5,044	$187
Center	*55,611*	*4,930*	*45,734*	*275*	*4,773*	*30,316*	*6,271*	*187*
UG Student Aid Fund	*(741)*						*(1,059)*	
Facilities Improvement Fund	*(3,198)*						*(168)*	
Indirect	(195)		(41,490)		337		(378)	
Participation	*(5,895)*				*(467)*		*(378)*	
Academic Initiatives	*3,200*		*15,680*		*500*			
Provost's Initiatives	*2,500*							
Graduate Programs			*(57,170)*		*304*			
Total Revenues	$51,477	$4,930	$4,244	$275	$5,110	$30,316	$4,666	$187
Expenses								
Direct	$38,640	$4,930	$4,244	$275	$3,697	$30,316	$4,123	$187
Indirect	12,837				1,413		543	
Allocated Central Costs	*11,395*				*1,413*		*520*	
Facilities Based	*1,442*						*23*	
Total Expenses	$51,477	$4,930	$4,244	$275	$5,110	$30,316	$4,666	$187

	USC Glorya Kaufman School of Dance		USC Marshall School of Business		USC Sol Price School of Public Policy		USC Roski School of Art and Design	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	$5,706	$126	$205,992	$26,856	$55,840	$20,760	$11,789	$303
Center	*8,546*	*126*	*262,481*	*26,856*	*63,836*	*20,760*	*16,884*	*303*
UG Student Aid Fund	*(2,504)*		*(45,044)*		*(5,270)*		*(4,453)*	
Facilities Improvement Fund	*(336)*		*(11,445)*		*(2,726)*		*(642)*	
Indirect	(750)		(22,135)		(4,599)		(1,378)	
Participation	*(765)*		*(23,727)*		*(5,539)*		*(1,458)*	
Academic Initiatives					*105*		*80*	
Provost's Initiatives	*15*				*125*			
Graduate Programs			*1,592*		*710*			
Total Revenues	$4,956	$126	$183,857	$26,856	$51,241	$20,760	$10,411	$303
Expenses								
Direct	$4,379	$126	$135,215	$26,856	$39,194	$20,760	$7,549	$303
Indirect	577		48,642		12,047		2,862	
Allocated Central Costs	*560*		*45,679*		*11,170*		*2,452*	
Facilities Based	*17*		*2,963*		*877*		*410*	
Total Expenses	$4,956	$126	$183,857	$26,856	$51,241	$20,760	$10,411	$303

2018 Colleges, Schools, Centers and Institutes

Individual Revenue Center Summary / 2017-18 Budget / in thousands

	USC Rossier School of Education		USC Thornton School of Music		USC Viterbi School of Engineering Academic Programs		USC Viterbi School of Engineering Information Sciences Institute	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	$61,433	$14,387	$31,262	$3,094	$186,432	$69,890	$6,575	$76,158
Center	*64,060*	*14,387*	*42,823*	*3,094*	*222,429*	*69,890*	*6,575*	*76,158*
UG Student Aid Fund	*(449)*		*(9,786)*		*(25,623)*			
Facilities Improvement Fund	*(2,178)*		*(1,775)*		*(10,374)*			
Indirect	(3,002)		(148)		4,197		1,071	
Participation	*(4,183)*		*(3,930)*		*(21,793)*		*(681)*	
Academic Initiatives			*3,750*		*8,000*		*552*	
Provost's Initiatives								
Graduate Programs	*1,181*		*32*		*17,990*		*1,200*	
Total Revenues	$58,431	$14,387	$31,114	$3,094	$190,629	$69,890	$7,646	$76,158
Expenses								
Direct	$48,338	$14,387	$20,778	$3,094	$133,115	$69,890	$4,126	$76,158
Indirect	10,093		10,336		57,514		3,520	
Allocated Central Costs	*9,427*		*9,021*		*48,209*		*3,520*	
Facilities Based	*666*		*1,315*		*9,305*			
Total Expenses	$58,431	$14,387	$31,114	$3,094	$190,629	$69,890	$7,646	$76,158

	Total Colleges, Schools, Centers and Institutes	
	Undesignated	Designated
Revenues		
Direct	$1,337,873	$410,174
Center	***1,679,195***	***410,174***
UG Student Aid Fund	***(274,879)***	
Facilities Improvement Fund	***(66,443)***	
Indirect	(98,615)	
Participation	***(145,292)***	
Academic Initiatives	***53,257***	
Provost's Initiatives	***3,178***	
Graduate Programs	***(9,758)***	
Total Revenues	$1,239,258	$410,174
Expenses		
Direct	$900,440	$410,174
Indirect	338,818	
Allocated Central Costs	***297,876***	
Facilities Based	***40,942***	
Total Expenses	$1,239,258	$410,174

2018 Health Sciences Schools and Health Care Services

Individual Revenue Center Summary / 2017-18 Budget / in thousands

	Keck School of Medicine of USC		Herman Ostrow School of Dentistry of USC		USC School of Pharmacy		Total Health Sciences Schools	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	$223,350	$280,010	$122,706	$19,372	$81,328	$9,621	**$427,384**	**$309,003**
Center	*230,743*	*280,010*	*131,320*	*19,372*	*83,724*	*9,621*	***445,787***	***309,003***
UG Student Aid Fund	*(3,080)*		*(3,001)*		*(49)*		***(6,130)***	
Facilities Improvement Fund	*(4,313)*		*(5,613)*		*(2,347)*		***(12,273)***	
Indirect	9,061		(9,755)		(2,494)		**(3,188)**	
Participation	*(13,973)*		*(11,565)*		*(4,408)*		***(29,946)***	
Academic Initiatives	*17,000*						***17,000***	
Provost's Initiatives								
Graduate Programs	*6,034*		*1,810*		*1,914*		***9,758***	
Total Revenues	$232,411	$280,010	$112,951	$19,372	$78,834	$9,621	$424,196	$309,003
Expenses								
Direct	$158,896	$280,010	$84,615	$19,372	$65,330	$9,621	**$308,841**	**$309,003**
Indirect	73,515		28,336		13,504		**115,355**	
Allocated Central Costs	*58,391*		*23,354*		*11,727*		***93,472***	
Facilities Based	*15,124*		*4,982*		*1,777*		***21,883***	
Total Expenses	$232,411	$280,010	$112,951	$19,372	$78,834	$9,621	$424,196	$309,003

	Keck Medical Center of USC		Senior Care		Total Health Care Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues						
Direct	$1,788,472		$2,614		**$1,791,086**	
Center	*1,788,472*		*2,614*		***1,791,086***	
UG Student Aid Fund						
Facilities Improvement Fund						
Indirect						
Participation						
Academic Initiatives						
Provost's Initiatives						
Graduate Programs						
Total Revenues	$1,788,472		$2,614		$1,791,086	
Expenses						
Direct	$1,780,774		$2,614		**$1,783,388**	
Indirect	7,698				**7,698**	
Allocated Central Costs	*5,387*				***5,387***	
Facilities Based	*2,311*				***2,311***	
Total Expenses	$1,788,472		$2,614		$1,791,086	

2018 Auxiliaries and Athletics

Individual Revenue Center Summary / 2017-18 Budget / in thousands

	Animal Resources		Bookstores		Coliseum		Hospitality	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	$99		$34,129		$22,351		$58,629	
Center	*99*		*34,129*		*22,351*		*58,629*	
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect							100	
Participation								
Academic Initiatives								
Provost's Initiatives							*100*	
Graduate Programs								
Total Revenues	$99		$34,129		$22,351		$58,729	
Expenses								
Direct	($2,365)		$30,273		$22,351		$52,840	
Indirect	2,464		3,856				5,889	
Allocated Central Costs	*942*		*2,992*				*3,572*	
Facilities Based	*1,522*		*864*				*2,317*	
Total Expenses	$99		$34,129		$22,351		$58,729	

	Housing		Intercollegiate Athletics		Radisson Hotel		Student Health and Counseling Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	$86,277		$90,988	$7,630	$16,260		$69,827	
Center	*86,277*		*90,988*	*7,630*	*16,260*		*69,827*	
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect								
Participation								
Academic Initiatives								
Provost's Initiatives								
Graduate Programs								
Total Revenues	$86,277		$90,988	$7,630	$16,260		$69,827	
Expenses								
Direct	$66,909		$77,799	$7,630	$15,843		$65,357	
Indirect	19,368		13,189		417		4,470	
Allocated Central Costs	*13,657*		*10,049*		*405*		*3,636*	
Facilities Based	*5,711*		*3,140*		*12*		*834*	
Total Expenses	$86,277		$90,988	$7,630	$16,260		$69,827	

	Transportation		USC Radio		USC Village		Total Auxiliaries and Athletics	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	$23,535		$13,048	$1,242	$5,181		$420,324	$8,872
Center	*23,535*		*13,048*	*1,242*	*5,181*		*420,324*	*8,872*
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect							100	
Participation								
Academic Initiatives								
Provost's Initiatives							*100*	
Graduate Programs								
Total Revenues	$23,535		$13,048	$1,242	$5,181		$420,424	$8,872
Expenses								
Direct	$13,380		$12,131	$1,242	$4,822		$359,340	$8,872
Indirect	10,155		917		359		61,084	
Allocated Central Costs	*7,862*		*917*		*359*		*44,391*	
Facilities Based	*2,293*						*16,693*	
Total Expenses	$23,535		$13,048	$1,242	$5,181		$420,424	$8,872

2018 Classification by Center

2017-18 Budget / in thousands

	Colleges, Schools, Centers and Institutes		Health Sciences Schools		Health Care Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues						
Direct	$1,337,873	$410,174	$427,384	$309,003	$1,791,086	
Center	*1,679,195*	*410,174*	*445,787*	*309,003*	*1,791,086*	
UG Student Aid Fund	*(274,879)*		*(6,130)*			
Facilities Improvement Fund	*(66,443)*		*(12,273)*			
Indirect	(98,615)		(3,188)			
Participation	*(145,292)*		*(29,946)*			
Academic Initiatives	*53,257*		*17,000*			
Provost's Initiatives	*3,178*					
Graduate Programs	*(9,758)*		*9,758*			
Total Revenues	$1,239,258	$410,174	$424,196	$309,003	$1,791,086	
Expenses						
Direct	$900,440	$410,174	$308,841	$309,003	$1,783,388	
Indirect	338,818		115,355		7,698	
Allocated Central Costs	*297,876*		*93,472*		*5,387*	
Facilities Based	*40,942*		*21,883*		*2,311*	
Total Expenses	$1,239,258	$410,174	$424,196	$309,003	$1,791,086	

	Auxiliaries and Athletics		Total Revenue Centers		Administrative Centers	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues						
Direct	$420,324	$8,872	$3,976,667	$728,049	$144,867	$56,420
Center	*420,324*	*8,872*	***4,336,392***	***728,049***	*(214,858)*	*56,420*
UG Student Aid Fund			***(281,009)***		*281,009*	
Facilities Improvement Fund			***(78,716)***		*78,716*	
Indirect	100		(101,703)			
Participation			***(175,238)***			
Academic Initiatives			***70,257***			
Provost's Initiatives	*100*		***3,278***			
Graduate Programs						
Total Revenues	$420,424	$8,872	$3,874,964	$728,049	$144,867	$56,420
Expenses						
Direct	$359,340	$8,872	$3,352,009	$728,049	$667,822	$56,420
Indirect	61,084		522,955		(522,955)	
Allocated Central Costs	*44,391*		***441,126***		*(441,126)*	
Facilities Based	*16,693*		***81,829***		*(81,829)*	
Total Expenses	$420,424	$8,872	$3,874,964	$728,049	$144,867	$56,420

	Provost Funding		Total University		Grand Total
	Undesignated	Designated	Undesignated	Designated	
Revenues					
Direct	$19,622		$4,141,156	$784,469	$4,925,625
Center	*19,622*		*4,141,156*	*784,469*	*4,925,625*
UG Student Aid Fund					
Facilities Improvement Fund					
Indirect	101,703				
Participation	*175,238*				
Academic Initiatives	*(70,257)*				
Provost's Initiatives	*(3,278)*				
Graduate Programs					
Total Revenues	$121,325		$4,141,156	$784,469	$4,925,625
Expenses					
Direct	$121,325		$4,141,156	$784,469	$4,925,625
Indirect					
Allocated Central Costs					
Facilities Based					
Total Expenses	$121,325		$4,141,156	$784,469	$4,925,625

Definitions:

Direct Revenues and Direct Expenses in Revenue Centers include all categories displayed in the Summary of Budgeted Operating Revenues and Expenses.

Center Revenues are directly generated by the center, less any financial aid paid from center funds.

The Undergraduate Student Aid is centrally administered and charged to academic centers on a pre-determined percent of undergraduate tuition. For fiscal year 2017-2018, the rate is 30.0%.

Indirect Revenues are the sum of Participation, Academic Initiatives, Provost's Initiatives, and Graduate Programs.

Participation is a tax on gross tuition revenue, recovery of indirect costs, sales and service and other sources. For fiscal year 2017-2018, the rate is 9.2%.

Academic Initiatives funding is for specific activities for a limited time period.

Provost's Initiatives funding is allocated from centrally controlled funds to support university priorities.

Graduate Programs funding is provided to schools in support of graduate education. All PhD tuition is centralized and allocated to various schools based on academic priorities.

Indirect Expenses are the sum of Allocated Central Costs and Facilities Based Indirects and equal the net budgets of administrative centers (see Individual Administrative Centers 2017-2018 Budget by Presidential and Senior Vice Presidential Responsibility Area).

Allocated Central Costs are central administrative costs that benefit the university as a whole and are allocated to revenue centers.

Facilities Based Indirects are space related costs that can be linked directly to a center's occupancy.

2018 Individual Administrative Centers by Presidential and Senior Vice Presidential Responsibility Area

2017-18 Budget / in thousands

	Net Operating Budget	Employee Benefits Budget
President		
President's Office	$4,403	
Total	**$4,403**	**—**
Provost and Senior Vice President for Academic Affairs		
Academic Affairs	$7,034	
Enrollment Services	19,399	
Faculty Affairs		$451
Faculty Sabbaticals		18,646
Global Initiatives	3,093	
Office of Research	10,386	
Provost's Office	15,915	
Student Affairs	13,414	36
University Art Galleries	751	
University Libraries	42,932	
USC Stevens Center for Innovation	4,314	
Total	**$117,238**	**$19,133**
Senior Vice President, Administration		
Audit Services	$1,998	
USC Center for Work and Family Life		$1,157
Compliance	4,373	
Department of Public Safety	44,532	26,012
General Counsel	19,046	
Human Resources	3,733	12,189
Senior Vice President's Office	7,205	
Tram, Campus Cruiser and Rideshare	11,909	220
University Real Estate	8,777	
Total	**$101,573**	**$39,578**

	Net Operating Budget	Employee Benefits Budget
Senior Vice President, Finance and CFO		
Budget and Treasury	$5,160	$1,967
Campus Development	4,272	
Comptroller	9,432	576,823
Corporate Expense	44,758	
Facilities Management Services	98,878	
Financial and Business Services	17,798	
Information Technology Services	61,392	
Major Maintenance and Renovation	2,057	
Senior Vice President's Office	5,070	
Total	**$248,817**	**$578,790**
Senior Vice President, University Advancement		
Senior Vice President's Office	$35,232	
USC Alumni Association	2,228	
Total	**$37,460**	**—**
Senior Vice President, University Relations		
University Relations	$13,464	
Total	**$13,464**	**—**
Employee Benefit Recoveries		($637,501)
Total Administrative Centers	**$522,955**	**—**
Undergraduate Student Aid Fund	$281,009	
Facilities Improvement Fund	78,716	
Grand Total	**$882,680**	**—**

Role and Mission of the University of Southern California

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

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

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

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

An extraordinary closeness and willingness to help one another are evident among USC students, alumni, faculty, and staff; indeed, for those within its compass the Trojan Family is a genuinely supportive community. Alumni, trustees, volunteers and friends of USC are essential to this family tradition, providing generous financial support, participating in university governance, and assisting students at every turn.

In our surrounding neighborhoods and around the globe, USC provides public leadership and public service in such diverse fields as health care, economic development, social welfare, scientific research, public policy and the arts. We also serve the public interest by being the largest private employer in the city of Los Angeles, as well as the city's largest export industry in the private sector.

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

Adopted by the USC Board of Trustees, February 3, 1993

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USC University of Southern California

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