



Consolidated Financial Statements
For the Years Ended
June 30, 2023 and 2022



Report of Independent Auditors

To the Board of Trustees of the University of Southern California

Opinion

We have audited the accompanying consolidated financial statements of the University of Southern California and its subsidiaries (the “University”), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of activities and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University’s ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are



considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Los Angeles, California
November 10, 2023

Consolidated Balance Sheets

as of June 30, 2023 and 2022

in thousands

	June 30, 2023	June 30, 2022
Assets		
1 Cash and cash equivalents	\$413,949	\$421,238
2 Accounts receivable, net	954,344	856,510
3 Notes receivable, net	31,219	36,830
4 Pledges receivable, net	383,673	392,119
5 Investments	8,484,309	8,806,040
6 Inventories, prepaid expenses and other assets	519,178	417,147
7 Right-of-use assets - operating leases	227,820	193,578
8 Property, plant and equipment, net	5,055,603	4,447,548
9 Total Assets	\$16,070,095	\$15,571,010
Liabilities		
10 Accounts payable	\$329,046	\$303,814
11 Accrued liabilities	835,022	1,214,238
12 Refundable advances	68,746	41,736
13 Deposits and deferred revenue	361,473	380,237
14 Actuarial liability for annuities payable	75,762	85,702
15 Federal student loan funds	30,483	35,490
16 Asset retirement obligations	159,455	152,543
17 Operating lease obligations	236,280	202,866
18 Finance lease obligations	145,337	86,758
19 Bonds and notes payable	2,687,128	2,441,616
20 Other liabilities	78,331	86,255
21 Total Liabilities	5,007,063	5,031,255
Net Assets		
22 Without donor restrictions	4,830,362	4,650,356
23 With donor restrictions	6,232,670	5,889,399
24 Total Net Assets	11,063,032	10,539,755
25 Total Liabilities and Net Assets	\$16,070,095	\$15,571,010

The accompanying notes are an integral part of these statements.

Consolidated Statements of Activities

for the year ended June 30, 2023, with summarized comparative totals for the year ended June 30, 2022

in thousands

	Without Donor Restrictions	With Donor Restrictions	Year Ended June 30, 2023 Total Net Assets	Year Ended June 30, 2022 Total Net Assets
Operating				
Revenues:				
1 Student tuition and fees	\$1,744,703		\$1,744,703	\$1,743,066
2 Health care services	2,858,535		2,858,535	2,466,587
3 Contracts and grants	764,651		764,651	718,621
4 Auxiliary enterprises	304,222		304,222	268,468
5 Sales, services and other	462,477		462,477	343,702
6 Contributions	356,901	29,264	386,165	242,438
7 Allocation of endowment spending	378,717		378,717	313,696
8 Total Revenues	6,870,206	29,264	6,899,470	6,096,578
9 Net assets released from restrictions	21,130	(\$21,130)		
10 Total Revenues and Reclassifications	6,891,336	8,134	6,899,470	6,096,578
Expenses:				
11 Salaries and benefits	3,984,666		3,984,666	3,509,082
12 Operating expenses	2,564,119		2,564,119	2,171,699
13 Depreciation	332,186		332,186	305,944
14 Interest on indebtedness	97,062		97,062	85,611
15 Total Expenses before Insurance recoveries	6,978,033		6,978,033	6,072,336
16 (Decrease) increase in Net Assets from Operating Activities before Insurance recoveries	(86,697)	8,134	(78,563)	24,242
17 Insurance recoveries (refer to Note 14)	19,575		19,575	12,250
18 (Decrease) increase in Net Assets from Operating Activities	(67,122)	8,134	(58,988)	36,492
Non-operating				
19 Allocation of endowment spending to operations	(146,777)	(231,940)	(378,717)	(313,696)
20 Changes in funding status of defined benefit plan	4,542		4,542	6,490
21 Other components of net periodic benefit costs	(2,379)		(2,379)	343
22 Donor redesignations and other reclassifications	(235,232)	235,232		
23 Investment and endowment income	97,010	2,539	99,549	40,657
24 Net appreciation (depreciation) in fair value of investments	55,322	181,456	236,778	(673,607)
25 Contributions	4,900	80,148	85,048	248,086
26 Inherent contribution from member substitution	469,742	18,507	488,249	
27 Restricted contribution revenue - Arcadia ground lease		47,200	47,200	
28 Present value adjustment to annuities payable		1,995	1,995	11,380
29 Increase (decrease) in Net Assets from Non-operating Activities	247,128	335,137	582,265	(680,347)
30 Total increase (decrease) in Net Assets	180,006	343,271	523,277	(643,855)
31 Beginning Net Assets	4,650,356	5,889,399	10,539,755	11,183,610
32 Ending Net Assets	\$4,830,362	\$6,232,670	\$11,063,032	\$10,539,755

The accompanying notes are an integral part of these statements.

Consolidated Statements of Activities

for the year ended June 30, 2022

in thousands

	Without Donor Restrictions	With Donor Restrictions	Year Ended June 30, 2022 Total Net Assets
Operating			
Revenues:			
1 Student tuition and fees	\$1,743,066		\$1,743,066
2 Health care services	2,466,587		2,466,587
3 Contracts and grants	718,621		718,621
4 Auxiliary enterprises	268,468		268,468
5 Sales, services and other	343,702		343,702
6 Contributions	242,438		242,438
7 Allocation of endowment spending	313,696		313,696
8 Total Revenues	6,096,578		6,096,578
9 Net assets released from restrictions	386,767	(\$386,767)	
10 Total Revenues and Reclassifications	6,483,345	(386,767)	6,096,578
Expenses:			
11 Salaries and benefits	3,509,082		3,509,082
12 Operating expenses	2,171,699		2,171,699
13 Depreciation	305,944		305,944
14 Interest on indebtedness	85,611		85,611
15 Total Expenses before Insurance recoveries	6,072,336		6,072,336
16 Increase (decrease) in Net Assets from Operating Activities before Insurance recoveries	411,009	(386,767)	24,242
17 Insurance recoveries (refer to Note 14)	12,250		12,250
18 Increase (decrease) in Net Assets from Operating Activities	423,259	(386,767)	36,492
Non-operating			
19 Allocation of endowment spending to operations	(113,805)	(199,891)	(313,696)
20 Changes in funding status of defined benefit plan	6,490		6,490
21 Other components of net periodic benefit costs	343		343
22 Investment and endowment income	36,578	4,079	40,657
23 Net appreciation in fair value of investments	(205,663)	(467,944)	(673,607)
24 Contributions	36,486	211,600	248,086
25 Present value adjustment to annuities payable		11,380	11,380
26 (Decrease) in Net Assets from Non-operating Activities	(239,571)	(440,776)	(680,347)
27 Total increase (decrease) in Net Assets	183,688	(827,543)	(643,855)
28 Beginning Net Assets	4,466,668	6,716,942	11,183,610
29 Ending Net Assets	\$4,650,356	\$5,889,399	\$10,539,755

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

for the years ended June 30, 2023 and 2022

in thousands

	Year Ended June 30, 2023	Year Ended June 30, 2022
Cash Flows from Operating Activities		
1 Change in Net Assets	\$523,277	(\$643,855)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
2 Depreciation	332,186	305,944
3 Loss on the disposal/sale of plant assets	3,600	11,399
4 Present value adjustment to annuities payable	(2,020)	(11,199)
5 Contributions received for property, plant and equipment and permanent investment	(46,789)	(111,241)
6 Inherent contribution from member substitution	(488,249)	
7 Net realized gain on sale of investments	(157,757)	(997,562)
8 Net unrealized (appreciation) depreciation in investments	(79,062)	1,671,115
9 (Increase) in accounts receivable	(33,108)	(287,976)
10 (Increase) in pledges receivable	(27,309)	(14,192)
11 (Increase) in inventories, prepaid expenses and other assets	(41,924)	(33,707)
12 Increase in accounts payable	996	38,575
13 (Decrease) in accrued liabilities	(391,423)	(627,547)
14 Increase in refundable advances	27,010	2,601
15 (Decrease) increase in deposits and deferred revenue	(18,764)	152,718
16 (Decrease) increase in other liabilities	(22,075)	67,091
17 Net Cash used in Operating Activities	(421,411)	(477,836)
Cash Flows from Investing Activities		
18 Proceeds from note collections	7,743	12,169
19 Notes issued	(2,132)	(2,050)
20 Proceeds from sale and maturity of investments	4,522,433	5,920,205
21 Purchase of investments	(3,767,001)	(5,905,181)
22 Inherent contribution from member substitution	10,484	
23 Purchase of property, plant and equipment	(422,461)	(298,730)
24 Net Cash provided by (used in) Investing Activities	349,066	(273,587)
Cash Flows from Financing Activities		
Contributions received for long term investment:		
25 Endowment	83,765	106,480
26 Plant	5,911	3,826
27 Trusts and other	444	935
28 Repayment of finance lease obligation	(1,386)	(1,232)
29 Repayment of long-term debt	(10,750)	
30 Decrease in federal student loan funds	(5,007)	(9,921)
31 Change in annuities payable	1,943	7,667
32 Payment on annuities payable	(10,396)	(11,147)
33 Increase to annuities payable resulting from new contributions	532	670
34 Net Cash provided by Financing Activities	65,056	97,278
35 Net decrease in Cash and Cash equivalents	(7,289)	(654,145)
36 Cash and Cash equivalents at beginning of year	421,238	1,075,383
37 Cash and Cash equivalents at end of year	\$413,949	\$421,238

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Note 1.

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

General:

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

On July 1, 2022, the Health System, a subsidiary of the university, became the sole corporate member of USC Arcadia Hospital (USCAH), formerly known as Methodist Hospital of Southern California (MHSC) through a member substitution agreement. MHSC changed its legal name to USC Arcadia Hospital following the transaction. USCAH is a general acute care hospital with 348 licensed beds providing a full range of inpatient and outpatient services in the San Gabriel Valley in northeastern Los Angeles County.

Basis of Presentation:

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

Net Assets Without and With Donor Restrictions:

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

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

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

Measure of Operations:

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

The university’s non-operating activity within the consolidated statements of activities includes investment returns and other activities related to endowment, long-term benefit plan obligation funding changes, present value adjustment to annuities payable, gain/losses on extinguishment of debt, student loan net assets, contributions related to land, buildings and equipment and the inherent contribution from member substitution that are not part of the university’s operating activities.

Notes to Consolidated Financial Statements

Note 1. (continued)

Other Accounting Policies:

Cash and cash equivalents consist of U.S. Treasury bills, certificates of deposit, money market funds and all other short-term investments available for current operations with original maturities of 90 days or less at the time of purchase. Cash equivalents that are part of the university's investment portfolio are reported as investments and included in Note 6.

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

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

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

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

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

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, 2023 and 2022, the fair value of all such investments in investment funds has been determined by using NAV as a practical expedient, adjusted for capital calls, distributions, and significant known valuation changes, if any, of its related portfolio.

Notes to Consolidated Financial Statements

Note 1. (continued)

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

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

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

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

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

Notes to Consolidated Financial Statements

Note 1. (continued)

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, 2023 and 2022, the university recognized accretion expense related to conditional asset retirement obligations of approximately \$7,783,000 and \$7,488,000, respectively. For the years ended June 30, 2023 and 2022, the university settled asset retirement obligations of approximately \$1,047,000 and \$1,160,000, respectively. As of June 30, 2023, and 2022, included in the consolidated balance sheets are asset retirement obligations of \$159,455,000 and \$152,543,000, respectively.

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

Financial aid for the year ended June 30, 2023, which is included in student tuition and fees on the consolidated statement of activities, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$440,650	\$206,459	\$647,109
Endowed scholarships	39,172	18,353	57,525
External financial aid	39,598	18,553	58,151
Total	\$519,420	\$243,365	\$762,785

Financial aid for the year ended June 30, 2022, which is included in student tuition and fees on the consolidated statement of activities, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$421,812	\$197,996	\$619,808
Endowed scholarships	34,906	16,384	51,290
External financial aid	36,532	17,148	53,680
Total	\$493,250	\$231,528	\$724,778

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

Notes to Consolidated Financial Statements

Note 1. (continued)

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

Sponsored research agreements are primarily considered non-exchange transactions which are recognized in contracts and grants revenue on the consolidated statements of activities as the associated barriers are overcome, which generally is as allowable expenditures under such agreements are incurred. Non-exchange agreements are considered conditional if the terms of the agreement include both a right of return/release of assets received/promised and a barrier. Any funding received in advance of expenditure is recorded as a refundable advance. For sponsored research agreements considered to be exchange transactions, revenues are recognized as performance obligations are satisfied which in most cases mirrors the timing of when related costs are incurred. For the years ended June 30, 2023 and 2022, the university recognized approximately \$147,000,000 and \$131,000,000 of private contracts and grants revenue in contributions on the consolidated statements of activities.

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

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

Unconditional contributions from donors, including contributions receivable (unconditional promises to give), are recorded as revenues in the year received. Non-financial contributions are recorded at fair value using quoted market prices, market prices for similar assets, independent appraisals or appraisals performed by university management. Contributions receivable are reported at their discounted value using credit-adjusted borrowing rates and an allowance for amounts estimated to be uncollectible is provided. Donor-restricted contributions, which are received and either spent or deemed spent within the same year, are reported as revenue without donor restrictions. The presence of both a performance barrier and a right of return make a contribution conditional. Conditional promises to give are not recognized until specified obligations or barriers, such as milestones or performance targets, are met.

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

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

Notes to Consolidated Financial Statements

Note 1. (continued)

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

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

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

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

Under provisions of the Coronavirus Aid, Relief and Economic Security (CARES) and American Rescue Plan Acts, the university recognized grant revenue as a result of the Higher Education Emergency Relief Fund in the amounts of \$0 and \$11.7 million for the years ended June 30, 2023 and 2022. Additionally, the Health System has recognized grant revenue in the amounts of \$0 and \$31.9 million related to the Provider Relief Fund Program for the years ended June 30, 2023 and 2022. As allowed by the CARES Act, the university deferred payment of \$41.7 million for the employer portion of Social Security taxes, which was recorded within accrued liabilities on the consolidated balance sheets. As of June 30, 2023 and 2022, \$0 and \$41.7 million, respectively, was deferred and recorded within accrued liabilities on the consolidated balance sheets.

Keck Medicine received \$192.9 million of advanced payments from the Centers for Medicare and Medicaid Services ("CMS") under the Accelerated and Advance Payments Program. As of June 30, 2023 and 2022, \$0 and \$13.8 million, respectively, is recorded as accrued liabilities on the university's consolidated balance sheets.

Notes to Consolidated Financial Statements

Note 1. (continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed at the member substitution date, July 1, 2022. Determining the fair value of the assets acquired and liabilities assumed requires judgment that involves the use of significant accounting estimates and assumptions, including assumptions with respect to future cash flows and discount rates.

Fair Value	July 1, 2022
Cash and cash equivalents	\$10,484
Accounts receivable, net	64,727
Pledges receivable, net	7,576
Investments	190,995
Inventories, prepaid expenses and other assets	45,595
Right-of-use assets - operating leases	1,037
Property, plant, and equipment, net	508,559
Total assets	828,973
Accounts payable	(18,328)
Accrued liabilities	(51,868)
Asset retirement obligations	(1,841)
Operating lease obligations	(1,050)
Bonds and notes payable	(256,169)
Other liabilities	(11,468)
Total liabilities	(340,724)
Net assets	488,249
Inherent contribution from member substitution	
Net assets without donor restrictions	469,742
Net assets with donor restrictions	18,507
Total net assets	\$488,249

Patient accounts receivable, recorded in accounts receivable, net, was valued on a claim-by-claim basis to assess collectability and is classified as level III in the fair value hierarchy. The inputs related to the value include standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts/implicit price concessions provided to uninsured patients, co-pays, and deductibles in accordance with the Health System's policies. The hospital quality assurance fee receivable, recorded in accounts receivable, net, was adjusted to account for contract terms that would no longer be applicable to USCAH post-acquisition and is classified as level III. The inputs to the fair value are hospital-specific schedules prepared by the California Hospital Association (CHA) and Department of Health Care Services (DHCS). Bonds and notes payable were valued based on bid prices for the Series 2018 bonds and is classified as level II. Accrued payroll and employee benefits, recorded in accrued liabilities, were adjusted for employment arrangements which provided additional compensation in the event of a change in control. Because these arrangements were included in the employment arrangements prior to the contemplation of the acquisition and there is no post-acquisition service required, the additional compensation was considered a liability assumed by the Health System, and is classified as level III. The inputs to the fair value are the negotiated compensation amounts within the employee arrangements. Property, plant and equipment, net, were valued with a cost-based approach, using trend factors developed from various price indices to determine current reproduction costs less depreciation, which represents the fair value of these assets using level III inputs. Investments, recorded in investments, split-dollar life insurance arrangements, and certain other assets, recorded in inventories, prepaid expenses and other assets were recorded at fair value consistent with valuation methodologies described in Note 6. The remaining balances had carrying values that approximated fair value as of the acquisition date.

Notes to Consolidated Financial Statements

Note 1. (continued)

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.

Recent Accounting Pronouncements:

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance amends ASC 958-605, requiring not-for-profit entities to present contributed nonfinancial assets as a separate line item on the consolidated statement of activities, apart from contributions of cash and other financial assets, and disclose contributed nonfinancial assets. Not-for-profit entities are required to disclose the disaggregation of the amount of contributed nonfinancial assets, which is recognized within the consolidated statement of activities, by the category that depicts the type of contributed nonfinancial asset. The university adopted ASU 2020-07 for the fiscal year ended June 30, 2022. As a result of adopting this guidance, Restricted contribution revenue – Arcadia ground lease is included as a separate line item in the statements of activities, and enhanced disclosures are included within Note 5.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects) of reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The university adopted ASU 2020-04 for the fiscal year ended June 30, 2023. Adoption did not have a material impact on the university's consolidated financial statements. Effective December 7, 2022, the university transitioned from using LIBOR and replaced it with a successor rate 'Bloomberg Short-Term Bank Yield Index rate' (BSBY). Additional information is included in Note 10.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)* which replaces the current GAAP incurred loss impairment methodology with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This standard will be effective for the university for the fiscal year ended June 30, 2024. The university is currently evaluating the potential impact of adoption to the financial statements.

Notes to Consolidated Financial Statements

Note 2.

Liquidity and Availability:

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

	<u>Year Ended June 30, 2023</u>	<u>Year Ended June 30, 2022</u>
Total assets at year end	\$16,070,095	\$15,571,010
<i>Less:</i>		
Notes and loans receivable due in more than one year	(30,953)	(3,800)
Pledges receivable due in more than one year or otherwise purpose restricted	(351,675)	(354,785)
Donor-restricted and donor-restricted endowment funds	(5,704,320)	(5,240,702)
Board-designated endowment funds	(2,026,279)	(2,159,379)
Annuities and living trusts	(144,677)	(174,926)
Inventories, prepaid expenses and other assets	(253,543)	(195,191)
Right-of-use assets, operating leases	(227,820)	(193,578)
Property, plant and equipment, net	(5,055,603)	(4,447,548)
Financial assets available at year end for current use	<u>\$2,275,225</u>	<u>\$2,801,101</u>

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 years 2023 and 2022, the Board of Trustees approved the current distribution of 111% and 113% respectively, 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 years 2023 and 2022, the Board of Trustees approved an endowment pool payout of \$39.30 and \$35.50 a share respectively, for a total spending rule allocation of \$368,777,000 and \$323,373,000. As described in Note 6, the university also has unfunded commitments on alternative investments totaling \$1,429,943,000 and \$1,459,056,000 for fiscal years 2023 and 2022.

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. Furthermore, the university has a board-designated endowment of \$2,026,279,000 as of June 30, 2023. Although the university does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. However, both the board-designated endowment fund and donor-restricted endowments contain investments with lock-up provisions that reduce the total investments that could be made available (see Note 6 for disclosures about investments).

Note 3.

Accounts Receivable:

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

	<u>2023</u>	<u>2022</u>
U.S. Government	\$230,363	\$230,979
Student and other, net of allowance for doubtful accounts of \$23,418 (2023), \$33,124 (2022)	204,581	193,101
Patient care	519,400	432,430
Total	<u>\$954,344</u>	<u>\$856,510</u>

Notes to Consolidated Financial Statements

Note 4.

Notes and Loans Receivable:

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

Long-term financing receivables as of June 30, 2023, consist of the following (in thousands):

	June 30, 2023		Net
	Financing Receivables, Gross	Allowance for Doubtful Accounts	
Perkins loans	\$12,586		\$12,586
University student loans	4,162	(\$2,777)	1,385
Other student loans	17,248		17,248
Total student loans	33,996	(2,777)	31,219
Faculty and other loans	27,948		27,948
Total	\$61,944	(\$2,777)	\$59,167

Long-term financing receivables as of June 30, 2022, consist of the following (in thousands):

	June 30, 2022		Net
	Financing Receivables, Gross	Allowance for Doubtful Accounts	
Perkins loans	\$17,037		\$17,037
University student loans	4,510	(\$2,571)	1,939
Other student loans	17,854		17,854
Total student loans	39,401	(2,571)	36,830
Faculty and other loans	26,130		26,130
Total	\$65,531	(\$2,571)	\$62,960

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

Notes to Consolidated Financial Statements

Note 4. (continued)

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

The following table illustrates the aging analysis of receivables as of June 30, 2023 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	\$619	\$236	\$1,241	\$10,490	\$12,586
University student loans	95		2,289	1,778	4,162
Other student loans			168	17,080	17,248
Total student loans	714	236	3,698	29,348	33,996
Faculty and other loans				27,948	27,948
Total	\$714	\$236	\$3,698	\$57,296	\$61,944

The following table illustrates the aging analysis of receivables as of June 30, 2022 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	\$784	\$211	\$2,196	\$13,846	\$17,037
University student loans	303	58	2,377	1,772	4,510
Other student loans			222	17,632	17,854
Total student loans	1,087	269	4,795	33,250	39,401
Faculty and other loans				26,130	26,130
Total	\$1,087	\$269	\$4,795	\$59,380	\$65,531

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, 2023 and 2022, is adequate to absorb credit losses inherent in the portfolio as of these dates.

As part of the program to attract and retain exemplary faculty and senior staff, the university provides home mortgage financing assistance. Notes receivable that are included within accounts receivable on the consolidated balance sheets amounting to \$27,948,000 and \$26,130,000 were outstanding as of June 30, 2023 and 2022, 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, 2023 and 2022, there were no amounts past due under the faculty and staff loan program.

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

Notes to Consolidated Financial Statements

Note 5.

Pledges Receivable:

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

USCAH is located on property held under a lease from the City of Arcadia, expiring in 2066. The lease provides for an annual rental amount of one dollar. Upon the affiliation with the Health System on July 1, 2022, USCAH extended the ground lease term with the City of Arcadia for 99 years from such date and transferred the lease to the Health System. As there is no consideration paid to the City of Arcadia for use of the land, the lease is accounted for as a contribution from the City of Arcadia pursuant to ASC 958-605. As the lease assignee, the Health System assumes all the lease terms and contributes the ground space back to USCAH for its operations for no consideration. The ground lease was valued using the sales comparison approach, with an average value per square foot estimated using comparable land sales within the area zoned for highest and best use, which was then applied to the total square footage of the leased land. The comparative land sales value per square foot ranged from \$40.10 to \$64.71, with a weighted average rate of \$51.56. This fair value measurement is classified as level III within the fair value hierarchy described in Note 1. Because the land is restricted for future use in the Health System's operation of USCAH, restricted contribution revenue – Arcadia ground lease was recorded within net assets with donor restrictions on the consolidated statement of activities. Annually, as the land is utilized by the Health System, the donor restriction will be satisfied, and the related net assets will be released from restriction.

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

	2023	2022
Less than one year	\$102,268	\$124,312
One to five years	290,080	307,954
More than five years	906,123	72,401
Less: discount	(858,612)	(47,197)
Less: allowance	(56,186)	(65,351)
Total	\$383,673	\$392,119

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

	2023	2022
Endowment for departmental programs and activities	\$154,956	\$203,975
Endowment for scholarship	21,873	24,341
Building construction	61,721	63,936
Use of land contribution	44,578	
Departmental programs and activities	100,545	99,867
Total	\$383,673	\$392,119

At June 30, 2023 and 2022, conditional pledges not reflected in the consolidated financial statements, which consist primarily of promises to give with barriers to entitlement, were \$71,255,000 and \$68,736,000, respectively. When conditional promises to give become unconditional, they are recorded as revenues.

Notes to Consolidated Financial Statements

Note 6.

Investments:

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

	2023	2022
Equities	\$1,787,058	\$1,762,161
Fixed income securities	1,257,479	1,718,144
Alternative investments:		
Hedge funds	2,298,835	2,126,343
Private capital	2,458,520	2,534,088
Real estate and other	540,077	519,016
Assets held by other trustees	142,340	146,288
Total	\$8,484,309	\$8,806,040

The following table summarizes the levels of financial instruments carried at fair value as defined by the ASC 820 valuation hierarchy defined previously, for the year ended June 30, 2023 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	\$1,361,671	\$236	\$15,403	\$409,748	\$1,787,058
Fixed income securities	604,660	637,079	15,740		1,257,479
Hedge funds				2,298,835	2,298,835
Private capital				2,458,520	2,458,520
Real estate and other	692		17,426	521,959	540,077
Assets held by other trustees			142,340		142,340
Total	1,967,023	637,315	190,909	5,689,062	8,484,309
Other instruments held at Level III					
Gift annuity, trust receivable, and charitable remainder trusts			1,505		1,505
Non-contributory defined split-dollar life insurance arrangement			31,615		31,615
Total	-	-	33,120	-	33,120
Total financial instruments	\$1,967,023	\$637,315	\$224,029	\$5,689,062	\$8,517,429

Notes to Consolidated Financial Statements

Note 6. (continued)

The following table summarizes the levels of financial instruments carried at fair value as defined by the ASC 820 valuation hierarchy defined previously, for the year ended June 30, 2022 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	\$1,360,065	\$236	\$15,403	\$386,457	\$1,762,161
Fixed income securities	580,913	1,085,556	51,675		1,718,144
Hedge funds				2,126,343	2,126,343
Private capital				2,534,088	2,534,088
Real estate and other			25,079	493,937	519,016
Assets held by other trustees			146,288		146,288
Total	\$1,940,978	\$1,085,792	\$238,445	\$5,540,825	\$8,806,040

The following table summarizes the university's level III reconciliation for the year ended June 30, 2023 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments:								
Equities	\$15,403							\$15,403
Fixed income securities	51,675	\$26,982	(\$63,360)	(\$8)	\$451			15,740
Real estate and other	25,079		(2,012)	(5,545)	(96)			17,426
Assets held by other trustees	146,288		(4,576)	(2,391)	3,019			142,340
Total	238,445	26,982	(69,948)	(7,944)	3,374	-	-	190,909
Other instruments held at level III								
Gift annuity, trust receivable, and charitable remainder trusts	1,614	115	(126)	(5)	(74)	17	(36)	1,505
Non-contributory defined split-dollar life insurance arrangement	31,408				43	229	(65)	31,615
Total	33,022	115	(126)	(5)	(31)	246	(101)	33,120
Total Level III	\$271,467	\$27,097	(\$70,074)	(\$7,949)	\$3,343	\$246	(\$101)	\$224,029

The following table summarizes the university's level III reconciliation of investments for the year ended June 30, 2022 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments:								
Equities	\$15,403							\$15,403
Fixed income securities	14,263	\$36,835	(\$25,518)	\$291	(\$859)	\$26,663		51,675
Real estate and other	30,364	8	(5,332)	126	(87)			25,079
Assets held by other trustees	158,881		(194)	17	(12,416)			146,288
Total	\$218,911	\$36,843	(\$31,044)	\$434	(\$13,362)	\$26,663	\$0	\$238,445

Certain level III assets totaling \$175,169,000 and \$190,044,000 as of June 30, 2023, and June 30, 2022, respectively, have been valued using unadjusted third-party quotations. The primary unobservable inputs for level III fixed income securities, which are mainly non-public short-term commingled funds, are the applicable returns which range from 1.83% - 4.25%, applicable duration ranging from 0.13 - 5.24 years, and applicable maturity ranging from 0.46 - 7.65 years. The weighted average yield rate is 3.03%, the weighted average duration is 0.92 years, and the weighted average maturity is 1.93 years.

Notes to Consolidated Financial Statements

Note 6. (continued)

The fair value of the non-contributory defined split dollar life insurance arrangement is reported at the lower of total premiums paid or cash surrender value of the policies, which are considered level III in the fair value hierarchy and are recorded within inventories, prepaid expenses and other assets on the consolidated balance sheets.

The methods described above for level III instruments may produce a fair value that may not be indicative of net present value or reflective of future values. While the university believes that its valuation methods are appropriate, the use of different methodologies or assumptions to determine the fair value could result in different estimates of fair value at the reporting date.

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

Investment income and gains presented on the consolidated statements of activities contains endowment appreciation utilized to fund the spending rule, and investment expenses. Current year investment return reported in non-operating activities is net of external and direct internal investment costs, reduced by endowment appreciation utilized to fund the spending rule. The university's total investment return for the years ended June 30, 2023 and 2022, was \$336,327,000 and (\$632,950,000), respectively.

The following table lists investments by major category, measured using the NAV practical expedient, for the year ending June 30, 2023 (in thousands):

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms
Distressed Obligation Partnerships	U.S. and Non-U.S. Distressed Debt Securities	\$3,605	\$1,443	Approximately 1 Year	Redemptions are not permitted during the life of the fund.	Not Applicable
Hedge Funds	U.S. and Non-U.S. Investments in Relative Value, Event Driven, Long/Short and Directional Strategies	2,298,835	70,730	94.6% of NAV has an open ended life and 2.6% of NAV will be liquidated in under 2 years, and 2.7% of NAV will be liquidated between 4 and 7 years, and 0.1% will be liquidated on an undetermined basis.	Ranges between monthly redemption with 60 days notice, quarterly redemption with up to 185 days notice, semi annual redemption with up to 120 days notice, annual redemption with up to 90 days notice, bi annual redemption with 90 days notice; lock ups can be up to 5 years.	22% of NAV is locked up for 3 months or less, 25% of NAV is locked up for 6 months, 4% of NAV is locked up for 9 months, 6% of NAV is locked up for 1 year, 22% of NAV is locked for 2 years, 11% of NAV is locked-up for 3 years and 10% is locked up for more than 3 years.
Natural Resources Partnerships	U.S. and Non-U.S. Investments in Upstream, Midstream and Downstream Natural Resources Investments	455,997	101,836	Approximately 2 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Capital Partnerships	U.S. and Non-U.S. Private Equity and Venture Capital Investments	1,982,905	932,969	Approximately 5 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Real Estate Partnerships	U.S. and Non-U.S. Real Estate	537,972	322,965	Approximately 5 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Equity Funds	U.S. and Non-U.S. Equity Securities	409,748	Not Applicable	Open Ended	Minimum Monthly	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	-	Not Applicable	Open Ended	Monthly	None
Total		\$5,689,062	\$1,429,943			

Notes to Consolidated Financial Statements

Note 6. (continued)

The following table lists investments by major category, measured using the NAV practical expedient, for the year ending June 30, 2022 (in thousands):

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms
Distressed Obligation Partnerships	U.S. and Non-U.S. Distressed Debt Securities	\$4,598	\$1,443	Approximately 1 Year	Redemptions are not permitted during the life of the fund.	Not Applicable
Hedge Funds	U.S. and Non-U.S. Investments in Relative Value, Event Driven, Long/Short and Directional Strategies	2,126,343	139,008	97% of NAV has an open ended life and 2.7% of NAV will be liquidated between 4 and 7 years, and 0.3% of NAV will be liquidated on an undetermined basis.	Ranges between monthly redemption with 60 days notice, quarterly redemption with up to 185 days notice, semi annual redemption with up to 120 days notice, annual redemption with up to 90 days notice, bi annual redemption with 90 days notice; lock ups can be up to 5 years.	19% of NAV is locked up for 3 months, 21% of NAV is locked up for 6 months, 7% of NAV is locked up for 9 months, 7% of NAV is locked-up for 1 year, 16% of NAV is locked up for 3 years and 14% is locked up for more than 3 years.
Natural Resources Partnerships	U.S. and Non-U.S. Investments in Upstream, Midstream and Downstream Natural Resources Investments	603,477	126,588	Approximately 2 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Capital Partnerships	U.S. and Non-U.S. Private Equity and Venture Capital Investments	1,926,013	881,743	Approximately 5 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Real Estate Partnerships	U.S. and Non-U.S. Real Estate	493,823	310,274	Approximately 5 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Equity Funds	U.S. and Non-U.S. Equity Securities	386,457	Not Applicable	Open Ended	Minimum Monthly	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	114	Not Applicable	Open Ended	Monthly	None
Total		\$5,540,825	\$1,459,056			

Notes to Consolidated Financial Statements

Note 7.

Endowment:

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

Donor-restricted and board-designated endowment funds are summarized as follows for the year ended June 30, 2023 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	\$1,625,334	\$5,508,610	\$7,133,944
Non-pooled	400,945	54,190	455,135
Total	\$2,026,279	\$5,562,800	\$7,589,079

Donor-restricted and board-designated endowment funds are summarized as follows for the year ended June 30, 2022 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	\$1,837,495	\$5,188,546	\$7,026,041
Non-pooled	321,884	52,156	374,040
Total	\$2,159,379	\$5,240,702	\$7,400,081

Pooled investments represent donor-restricted and board-designated endowment funds which have been commingled in a unitized pool (unit value basis) for purposes of investment. At June 30, 2023 and 2022, the pool is comprised of cash and cash equivalents (2.32% and (1.53%), equities (52.21% and (51.69%), fixed income securities (5.72% and (5.39%), alternative investments (32.75% and (34.64%) and real estate and other investments (7.00% and (6.75%), 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 value at June 30, 2023 and 2022, was \$798.60 and \$805.09, respectively.

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

Notes to Consolidated Financial Statements

Note 7. (continued)

Endowment net asset composition by type of funds as of June 30, 2023 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		\$5,562,800	\$5,562,800
Board-designated endowment funds	\$2,026,279		2,026,279
Total	\$2,026,279	\$5,562,800	\$7,589,079

Endowment net asset composition by type of funds as of June 30, 2022 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		\$5,240,702	\$5,240,702
Board-designated endowment funds	\$2,159,379		2,159,379
Total	\$2,159,379	\$5,240,702	\$7,400,081

Changes in endowment net assets for the year ended June 30, 2023 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2022	\$2,159,379	\$5,240,702	\$7,400,081
Total investment return, net	202,132	188,251	390,383
Contributions and transfers	(188,455)	365,787	177,332
Appropriation of endowment assets for expenditure	(146,777)	(231,940)	(378,717)
Endowment net assets at June 30, 2023	\$2,026,279	\$5,562,800	\$7,589,079

Changes in endowment net assets for the year ended June 30, 2022 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2021	\$2,060,679	\$6,065,543	\$8,126,222
Total investment return, net	(140,385)	(442,544)	(582,929)
Contributions and transfers	352,890	(182,406)	170,484
Appropriation of endowment assets for expenditure	(113,805)	(199,891)	(313,696)
Endowment net assets at June 30, 2022	\$2,159,379	\$5,240,702	\$7,400,081

Notes to Consolidated Financial Statements

Note 7. (continued)

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

	2023	2022
Restricted for scholarship support	\$1,273,093	\$1,204,122
Restricted for faculty support	1,263,432	1,202,180
Restricted for program support	3,026,275	2,834,400
Total endowment assets with donor restrictions	\$5,562,800	\$5,240,702

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor contribution amounts (deficit). When donor-restricted endowment fund deficits exist, they are classified as a reduction of net assets with donor restrictions. Deficits of this nature exist in various donor-restricted endowment funds, which together have an original value of \$100,371,000 and a current fair value of \$94,708,000 with a deficiency of \$5,663,000 and an original value of \$68,355,000 and a current fair value of \$63,391,000 and a deficiency of \$4,964,000 as of June 30, 2023 and 2022, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent. The university has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

The university has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under these policies, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The university expects its endowment funds over time to provide an average rate of return of approximately 7.0% annually. Actual returns in any given year may vary from this amount.

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

For the 2023 fiscal year, the Board of Trustees approved the current distribution of 111% 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, \$39.30 was distributed to each endowment unit for a total spending rule allocation of \$368,777,000. Investment income amounting to \$5.20 per endowment unit was earned, totaling \$49,417,000, and \$319,360,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2023 represent 5.17% of the market value of the endowment pool at June 30, 2023.

For the 2022 fiscal year, the Board of Trustees approved a distribution of 113% 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, \$35.50 was distributed to each time-weighted unit for a total spending rule allocation of \$323,373,000. Investment income amounting to \$3.95 per time-weighted unit was earned, totaling \$36,486,000, and \$286,886,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2022 represent 4.62% of the market value of the endowment pool at June 30, 2022.

Notes to Consolidated Financial Statements

Note 8.

Property, Plant and Equipment:

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

	2023	2022
Land and improvements	\$241,309	\$226,541
Buildings and improvements	6,255,921	5,658,548
Buildings and equipment under finance leases	114,926	73,259
Equipment	1,346,259	1,167,438
Library books and collections	481,195	477,562
Construction-in-progress	641,688	441,858
	9,081,298	8,045,206
Less: Accumulated depreciation	4,025,695	3,597,658
Total	\$5,055,603	\$4,447,548

Note 9.

Leases:

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

The university has entered into the following lease arrangements:

Finance Leases

These leases consist of various equipment leases and a lease with the Los Angeles Memorial Coliseum Commission (LAMCC) to assume the operations of the Los Angeles Memorial Coliseum and Los Angeles Memorial Sports Arena. The lease agreement with the LAMCC expires in 2033, or in 2054, if all options are exercised, at which time a second lease agreement with the California Science Center (CSC), an institution of the state of California, commences. The lease with the CSC expires in 2111 and the university has assumed that all options will be exercised. Under the terms of both lease agreements for the Coliseum, the university is required to make certain capital improvements.

The university entered into a lease agreement for a 101,000 square foot medical office building. Due to the fact that the university is managing the construction, lease payments are required to be made prior to the building being constructed, and there is a purchase option within the agreement, the arrangement is considered to be a build-to-suit lease. As such, under ASC 842, the university is deemed to be the accounting owner and has recorded the leased asset as construction-in-progress within property, plant and equipment, net during the construction period. Additionally, landlord construction costs are reflected as finance lease obligations as amounts are spent to fund construction. The lease is a 34-year term with five, five-year options to extend, with the lease commencement date of July 1, 2022. The university has the right of first offer to purchase the building (landlord shall not be permitted to sell to any unaffiliated third party) to be exercised at any time between the commencement of the 18th lease year and the expiration of the 20th lease year. The university has a commitment to pay minimum lease payments of \$136,432,000 through year 17.

Notes to Consolidated Financial Statements

Note 9. (continued)

Operating Leases

The university has various equipment, vehicle and real estate leases for office space and housing that expire in various years through 2061. These leases generally contain renewal options for periods ranging from 2 years to 10 years and require the university to pay all executory costs (property taxes, maintenance, and insurance). The university is not reasonably certain the renewal options will be exercised and has not included them in the terms. Space leases contain customary escalation clauses, which are included in annual aggregate minimum rentals. Total operating lease expense for the years ending June 30, 2023 and 2022 was \$59,791,000 and \$53,352,000, respectively.

Short-Term Leases

The university has certain leases that are for a period of 12 months or less or contain renewals for periods of 12 months or less. The university does not include short-term leases within the balance sheets since it has elected the practical expedient to exclude these leases from right-of-use assets - operating leases and operating lease obligations. Total short-term lease expense included in operating expenses for the year ending June 30, 2023 and 2022 was \$8,532,000 and \$2,078,000, respectively.

Operating Leases - Lessor

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

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

	2023	2022
Lease Expense		
Finance lease expense		
Amortization of right-of-use assets	\$2,577	\$2,392
Interest on lease liabilities	3,629	3,549
Operating lease expense	59,791	53,352
Short-term lease expense	8,532	2,078
Variable lease expense	(1,351)	1,428
Total	\$73,178	\$62,799
Other Information		
Cash paid for amounts included in the measurement of lease liabilities		
Finance - Financing cash flows	\$1,386	\$1,232
Finance - Operating cash flows	1,740	1,695
Operating - Operating cash flows	55,572	53,030
Right-of-use assets obtained in the exchange for lease liabilities		
Finance leases	41,667	3,528
Operating leases	81,453	13,612
Weighted-average remaining lease term		
Finance leases	78.4 years	83.4 years
Operating leases	7.4 years	7.3 years
Weighted-average discount rate		
Finance leases	4.5%	4.3%
Operating leases	2.6%	1.5%

Notes to Consolidated Financial Statements

Note 9. (continued)

Future aggregate minimum lease payments as of June 30, 2023, under finance and operating leases are as follows (in thousands):

Future minimum lease payments:	Finance	Operating
2024	\$2,987	\$51,380
2025	3,009	44,176
2026	2,673	36,942
2027	2,306	30,391
2028	2,334	23,761
Thereafter	715,803	76,423
	729,112	263,073
Less: amounts representing interest	(583,775)	(26,793)
Present value of net minimum lease payments	\$145,337	\$236,280

Note 10.

Bonds Payable and Line of Credit:

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

	Interest %	Maturity	2023	2022
<i>University of Southern California Bonds:</i>				
Series 2011 Taxable	5.25	2112	\$300,000	\$300,000
Discount			(2,370)	(2,397)
Series 2016 Taxable	3.03	2040	722,580	722,580
Discount			(2,602)	(2,760)
Series 2017 Taxable	3.84	2048	402,320	402,320
Discount			(1,448)	(1,507)
Series 2020A Taxable	3.23	2121	320,000	320,000
Discount			(2,717)	(2,745)
Series 2020B Taxable	2.81	2051	308,835	308,835
Discount			(1,211)	(1,256)
Series 2021A Taxable	2.95	2052	400,000	400,000
Discount			(1,404)	(1,454)
California Statewide Communities Development Authority,				
Hospital Revenue Refunding Bonds, Series 2018	4.25 - 5.00	2048	232,860	
Premium			6,785	
Secured JP Morgan Loan	1.21	2027	5,500	
Total			\$2,687,128	\$2,441,616

Principal payment requirements relating to bonds and notes payable, after giving effect to refunding, for the next five fiscal years are approximately: 2024 \$1,100,000; 2025 \$6,300,000; 2026 \$6,565,000; 2027 \$6,850,000; 2028 \$7,140,000, thereafter \$2,664,140,000.

Interest payments for fiscal year 2023 and 2022 were \$94,840,000 and \$83,423,000, respectively.

Notes to Consolidated Financial Statements

Note 10. (continued)

The university has a revolving line of credit with a bank with a maturity date of November 30, 2025. The committed size of the revolving line of credit is \$500,000,000. The line of credit accrues interest based on ‘Bloomberg Short-Term Bank Yield Index rate’ (BSBY) and contains a fee on the unused portion. The line of credit contains certain restrictive covenants which include a minimum credit rating of “A” and “A2” from Standard and Poor’s and Moody’s, respectively, as well as a minimum total net assets of \$5,500,000,000. The university was in compliance with these covenants during fiscal years ending June 30, 2023 and 2022.

In December 2018, USCAH issued \$251,770 of California Statewide Communities Development Authority Hospital Revenue Refunding Bonds (Series 2018 Bonds). Pursuant to the loan agreement and indenture for the Certificate of Bonds, USCAH must comply with certain restrictive financial and non-financial covenants. In May 2020, USCAH entered a \$10,000 taxable loan agreement with JPMorgan Chase Bank, National Association with maturity date of December 15, 2027, at interest rate of 1.21% per annum to fund a portion of its plans to meet state seismic requirements, to pay off the Berger notes and for other general corporate purposes. The taxable loan agreement requires gross receivables owned by USCAH as security. Approximately \$2,695 of the loan proceeds were used to pay off the unsecured notes extended from the H.N. and Frances C. Berger Foundation and related interest in May 2020.

In May 2023, USCAH defeased \$4,945 of bonds maturing on January 1, 2024 and provided for an irrevocable deposit in trust with The Bank of New York Mellon Trust Company, N.A. as Escrow Deposit Agent for that purpose and further to pay for all interest coming due on the outstanding bonds on July 1, 2023, January 1, 2024 and July 1, 2024. A portion of such deposits has been invested in non-callable direct obligations of the United States of America, and the principal and earnings on which will be sufficient to pay for the defeased bonds and interest due in accordance with their terms.

USCAH is the sole member of the obligated group on the debts and the only entity obligated to pay debt service with respect to the bonds. As of June 30, 2023, USCAH is in compliance with all the covenants of the bonds and the taxable loan agreement.

Note 11.

Retirement Benefits:

Retirement benefits for eligible university employees are provided through the Teachers Insurance and Annuity Association, The Vanguard Group, AIG Sun America (frozen July 2007), Fidelity Investments and Prudential Financial (frozen April 2016). Under these defined contribution plans, the university and plan participants make contributions to purchase individual, fixed or variable annuities equivalent to retirement benefits earned or to participate in a variety of mutual funds. Under the university 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. The university paused the non-elective contribution to all employees in calendar year 2021. Newly hired employees on or after January 1, 2012, have the university non-elective contribution subject to a four-year vesting schedule. Employees hired on or after January 1, 2019, are subject to a one year waiting period counted under the elapsed time method. Benefits commence at the earliest of age 59 1/2, termination of employment or retirement. Pre-retirement survivor death benefits are also provided. Charges to operating expenses for the university’s share of costs were approximately \$218,201,000 and \$151,509,000 during the years ended June 30, 2023 and 2022, respectively.

Retirement benefits for employees of USC Verdugo Hills Hospital, Las Vegas Culinary Health Center and University Physician Associates are provided by a defined contribution 401(k) plan through Fidelity Investments. In December 2021, University Physicians Associates moved to the University Retirement Savings Program. Until August 2011, the Keck and Norris hospital employees covered under a collective bargaining agreement with California Nurses Association were also covered under this 401(k) plan. Until January 2017, the National Union of Healthcare Workers (“NUHW”) employees at Keck and Norris hospitals were also covered under this 401(k) plan. Under the 401(k) defined contribution plan, participants make contributions to purchase a variety of mutual funds.

Notes to Consolidated Financial Statements

Note 11. (continued)

Effective January 2017, the university contribution to the 401(k) plan is made on a paycheck-by-paycheck basis. Prior to this, the university made its contribution in a lump sum following the end of the calendar year and matched 100% of the participants' contributions up to 4% of eligible earnings, providing the participant was employed on the last day of the calendar year. In addition, the university made a 1% retiree medical benefit contribution to all NUHW participants who were both employed on the last day of the calendar year and worked 1,500 hours in that calendar year. The university contribution is subject to a five-year vesting schedule, although previously credited years prior to the Tenet, Las Vegas and Verdugo acquisitions have been carried over. Benefits commence at the earliest of age 59 1/2, termination of employment or retirement however, retiree medical benefit contributions may not be withdrawn until disabled or after age 59 1/2 regardless of employment status. Pre-retirement survivor death benefits are also provided.

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

Changes in Projected Benefit Obligation	2023	2022
Benefit obligation at end of prior year	\$135,944	\$174,134
Interest cost	6,680	5,165
Actuarial (gain) loss	(5,098)	(40,576)
Benefits paid	(3,394)	(2,779)
	\$134,132	\$135,944
Changes in Plan Assets	2023	2022
Fair value of plan assets at the end of prior years	\$131,650	\$163,007
Actual return on plan assets	3,745	(28,578)
Benefits paid	(3,394)	(2,779)
	\$132,001	\$131,650
Reconciliation of Funded Status	2023	2022
Accumulated benefit obligation at end of year	(\$134,132)	(\$135,944)
Projected benefit obligation at end of year	(134,132)	(135,944)
Fair value of plan assets at end of year	132,001	131,650
Funded status	(\$2,131)	(\$4,294)
Components of Net Periodic Benefit Cost	2023	2022
Interest cost	\$6,680	\$5,165
Expected return on plan assets	(5,948)	(7,408)
Amortization of net loss	1,647	1,900
Total benefit cost	\$2,379	(\$343)

Notes to Consolidated Financial Statements

Note 11. (continued)

Amounts recognized in the Statement of Financial Position	2023	2022
Accrued liabilities	(\$2,131)	(\$4,294)
Amounts not yet recognized as components of Net Periodic Benefit Cost	2023	2022
Net loss	\$23,352	\$27,894
Changes in the net reduction to Without Donor Restrictions	2023	2022
Net gain	(\$2,895)	(\$4,590)
Amortization of net gain	(1,647)	(1,900)
Total benefit cost	(\$4,542)	(\$6,490)

The estimated net loss/(gain) and prior service cost for the Plan that will be recognized as components of net periodic benefit cost over the next fiscal year is \$1,186,000 and \$0, respectively.

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

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

	2023	2022
Discount rate	5.00%	3.00%
Expected return on plan assets	4.60%	4.60%
Rate of compensation increase	N/A	N/A

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

	2023	2022
Discount rate	5.40%	5.00%
Rate of compensation increase	N/A	N/A

Plan Assets

In managing the Plan assets, the university's objective is to be a responsible fiduciary while minimizing financial risk. Plan assets include a diversified mix of fixed income securities and equity securities across a range of sectors and levels of capitalization to maximize the long-term return for a prudent level of risk. In addition to producing a reasonable return, the investment strategy seeks to minimize the volatility in the university's expense and cash flow. The target allocation for pension benefit plan assets is 25% equity securities and 75% fixed income securities.

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

Notes to Consolidated Financial Statements

Note 11. (continued)

Fair Value

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

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

At June 30, 2023, a summary of fair value measurements by level for Plan investments measured at fair value on a recurring basis is as follows (in thousands):

	Level I	Level II	Level III	NAV	Total
Collective Trust Funds:					
Short-term investment fund		\$334			\$334
Equity securities		34,486			34,486
Fixed income securities		97,181			97,181
Total		\$132,001			\$132,001

At June 30, 2022, 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		\$190			\$190
Equity securities		31,692			31,692
Fixed income securities		99,768			99,768
Total		\$131,650			\$131,650

Notes to Consolidated Financial Statements

Note 11. (continued)

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, 2023	Target at June 30, 2023	Actual at June 30, 2022	Target at June 30, 2022
Short-term investment fund	0.0%	0.0%	0.0%	0.0%
Equity securities	26.0%	25.0%	24.0%	25.0%
Fixed income securities	74.0%	75.0%	76.0%	75.0%
Total	100.0%	100.0%	100.0%	100.0%

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

Contributions

No contribution to the plan is required to be made during the fiscal year ending June 30, 2024 or 2023. At this time, it is anticipated that the university will make discretionary contributions to the pension plan during the next fiscal year, although the total amount of such contributions has not yet been determined.

Estimated Future Benefit Payments

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

	Fiscal Year Ending June 30
2024	\$5,634
2025	6,328
2026	7,055
2027	7,793
2028	8,407
2029-2033	47,082

Notes to Consolidated Financial Statements

Note 12.

Net Assets:

The university's net assets as of June 30, 2023, includes the following (in thousands):

Nature of Specific Net Assets	Without Donor Restrictions	With Donor Restrictions	Year Ended
			June 30, 2023
			Total Net Assets
Undesignated	\$1,682,585		\$1,682,585
Donor-restricted		\$141,520	141,520
Pledges		383,673	383,673
Unexpended endowment income	466,404		466,404
Annuity and living trusts		144,677	144,677
Donor-restricted endowment funds		5,562,800	5,562,800
Board-designated endowment funds	2,026,279		2,026,279
Debt service funds	133,838		133,838
Invested in plant	521,256		521,256
Total	\$4,830,362	\$6,232,670	\$11,063,032

The university's net assets as of June 30, 2022, includes the following (in thousands):

Nature of Specific Net Assets	Without Donor Restrictions	With Donor Restrictions	Year Ended
			June 30, 2022
			Total Net Assets
Undesignated	\$1,320,190		\$1,320,190
Donor-restricted		\$81,652	81,652
Pledges		392,119	392,119
Unexpended endowment income	414,478		414,478
Annuity and living trusts		174,926	174,926
Donor-restricted endowment funds		5,240,702	5,240,702
Board-designated endowment funds	2,159,379		2,159,379
Debt service funds	128,302		128,302
Invested in plant	628,007		628,007
Total	\$4,650,356	\$5,889,399	\$10,539,755

Notes to Consolidated Financial Statements

Note 13.

Functional Expenses:

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

For the year ended June 30, 2023, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fundraising Activities	Year Ended June 30, 2023
Compensation	\$2,716,051	\$433,166	\$48,906	\$3,198,123
Fringe benefits	203,044	567,400	16,099	786,543
Operating expenses	1,757,157	554,029	21,534	2,332,720
Cost of goods sold	96,336	46,489	110	142,935
Travel	49,693	39,102	2,048	90,843
Allocations:				
Depreciation	244,800	85,639	1,747	332,186
Interest	40,664	56,398		97,062
Plant operations and maintenance	182,496	(185,197)	2,701	
Total	\$5,290,241	\$1,597,026	\$93,145	\$6,980,412

For the year ended June 30, 2022, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fundraising Activities	Year Ended June 30, 2022
Compensation	\$2,368,920	\$380,602	\$42,179	\$2,791,701
Fringe benefits	477,350	226,129	13,901	717,380
Operating expenses	1,441,755	515,006	20,850	1,977,611
Cost of goods sold	85,513	47,690	25	133,228
Travel	22,955	36,508	1,055	60,518
Allocations:				
Depreciation	206,682	97,872	1,390	305,944
Interest	29,515	56,096		85,611
Plant operations and maintenance	185,406	(188,113)	2,707	
Total	\$4,818,096	\$1,171,790	\$82,107	\$6,071,993

Notes to Consolidated Financial Statements

Note 14.

Commitments and Contingencies:

Contractual commitments for educational plant amounted to approximately \$319,127,000 and \$146,305,000 at June 30, 2023 and 2022, 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.

Pursuant to the affiliation agreement, the Health System committed to investing \$200,700,000 in USCAH's equipment, infrastructure and services and, as such, it reimburses USCAH's capital expenditures as they are incurred. \$6,500,000 was contributed by the Health System for the period ended June 30, 2023.

Under the Medical Services Affiliation Agreement dated July 1, 2019 ("MSAA") between the university and the Los Angeles County Department of Health Services, the USC Keck School of Medicine provides clinical and teaching services at LA General Hospital Medical Center ("LA General"). On March 29, 2023, the university gave notice to Los Angeles County that it was invoking its rights to cease providing services at LA General effective July 1, 2024. By providing this notice, the university expressed intent to initiate negotiations over a new agreement that would address deficiencies in the current MSAA. The parties have since met several times to discuss a new agreement, but it is uncertain whether such an agreement will be reached. In the event that a new agreement is not reached, the current MSAA requires the parties to "jointly develop and implement a plan for disaffiliation, which provides for the continuation of quality patient care and medical education programs and recognizes the limits of available resources."

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

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

The university has resolved all civil lawsuits brought by alleged victims arising out of the alleged misconduct by Dr. George Tyndall, a gynecologist formerly employed by the university at its student health center. Insurance carriers that provided indemnity insurance coverage to the university related to the underlying Dr. Tyndall civil litigation have brought suit against the university in an attempt to try to recoup approximately \$80 million in indemnity payments paid to the university with respect to the Dr. Tyndall civil litigation.

The university also continues to seek contributions from other carriers. In the fiscal years ended June 30, 2023, and June 30, 2022, the university agreed to settlements by which it collected \$32,000,000 in indemnity payments from the university's insurers in connection with litigation related to Dr. Tyndall. While the university continues to expect that an additional portion of the Tyndall settlements will be covered by insurance, there can be no guarantee of the ultimate amount of coverage. Except as to insurance payments actually collected as of August 2023, amounts of future insurance reimbursements are unknown as of June 30, 2023, and as a result no insurance recovery accruals have been recorded in the 2023 or 2022 consolidated financial statements.

During the fiscal year ended June 30, 2020, the university was named in civil putative class action lawsuits (since consolidated into a single class action) that assert various legal claims seeking a partial refund of tuition and fees as a result of the university's campus closure and transition to remote instruction in response to the COVID-19 pandemic in the Spring 2020 semester. Although the outcome of this litigation is difficult to predict, the university believes it has strong defenses and has appropriately accounted for them in the consolidated financial statements.

During the fiscal year ended June 30, 2023, the university was named in a civil putative class action seeking a partial refund of tuition paid by online Master of Social Work ("MSW") students, on the basis that the university allegedly falsely advertised that the online and in-person MSW programs were the "same," and in another civil putative class action seeking damages on the basis of plaintiffs' allegations that they paid tuition that they would not otherwise have paid as a result of the submissions of allegedly false data to U.S. News and World Report by the USC Rossier School of Education causing an inaccurate U.S. News ranking of USC Rossier. The university is also cooperating with regulatory matters related to the subject matters of these lawsuits.

Notes to Consolidated Financial Statements

Note 14. (continued)

The university is named as a defendant in a civil False Claims Act (“FCA”) lawsuit alleging that the university’s submissions of claims for intraoperative neurophysiological monitoring services violated the federal FCA, the California FCA, and/or the California Insurance Frauds Prevention Act (“IFPA”). The government has not intervened in the case.

Note 15.

Grants and Contracts:

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

	2023	2022
Current sponsored awards	\$1,125,768	\$1,241,433
Executed grants and contracts for future periods	1,249,874	1,350,949
Total	\$2,375,642	\$2,592,382

Note 16.

Related Parties:

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

Note 17.

Subsequent Events:

On July 18, 2023, the university issued \$500,000,000 of Series 2023 taxable bonds. These bonds are unsecured general obligations of the university and bear interest at 4.98% and mature on October 1, 2053. The proceeds of the Series 2023 Bonds will be used by the university for its general corporate purposes, including, but not limited to, the acquisition, construction, renovation, improvement, rehabilitation and/or equipping by the university of higher educational and healthcare facilities, and to pay all or a portion of the costs of issuance of the Series 2023 Bonds.

The university has performed an evaluation of subsequent events through November 10, 2023, the date these consolidated financial statements were issued.