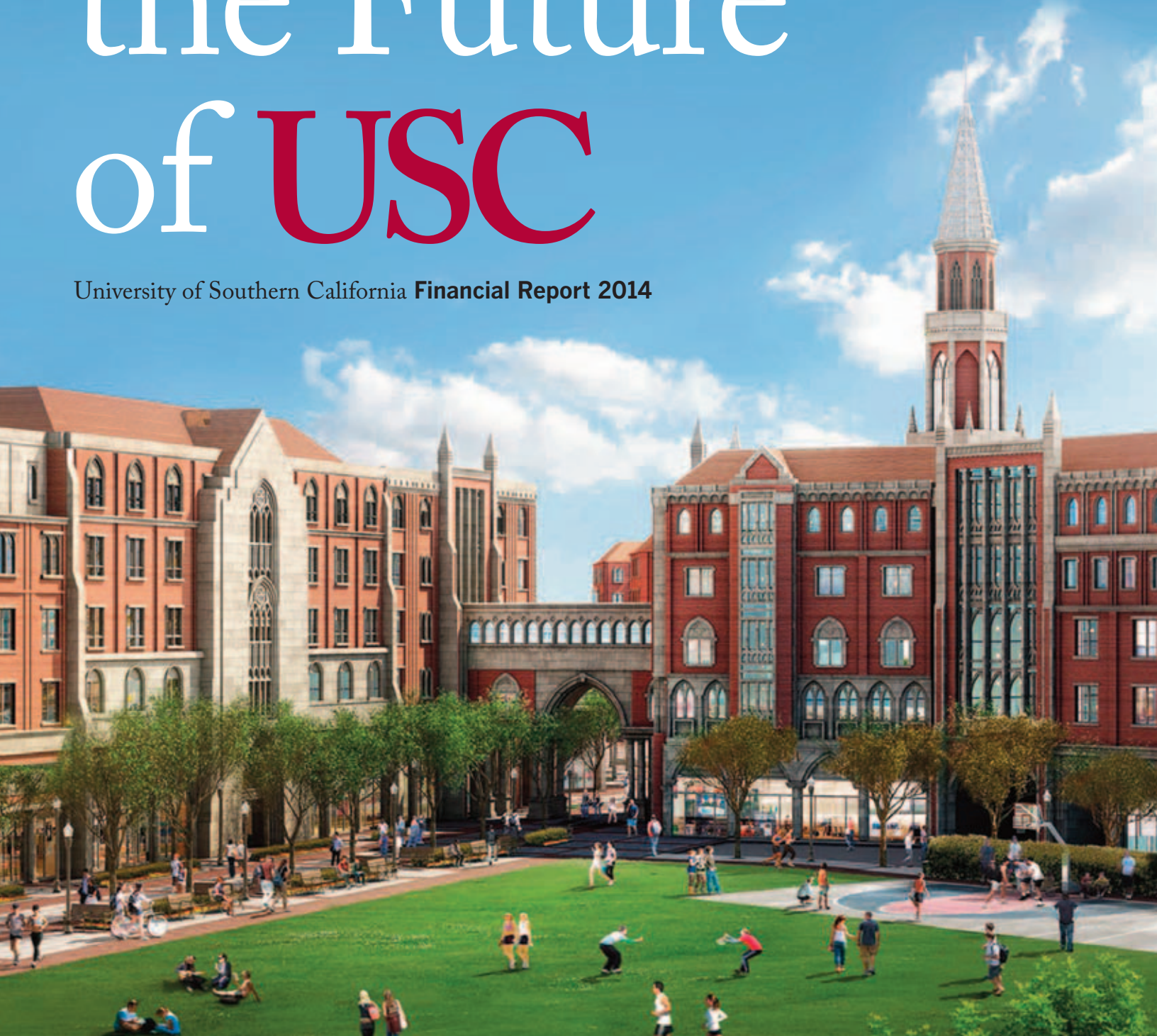




Building the Future of **USC**

University of Southern California **Financial Report 2014**



On the cover Construction is now underway for USC Village, a 1.25 million square-foot student residential and retail center that will transform the University Park Campus and serve the surrounding neighborhood.

University of Southern California Financial Report 2014

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Buildings are more than arches and bricks.

They are gathering places where students can grab coffee with friends and chat with professors; where faculty from divergent disciplines can meet to discuss their research; where performers and athletes can train and improve; where domestic and international students can mingle and share experiences. These are the kinds of **interactions created by the architecture and design** of the new buildings that grace USC. Here are a few snapshots of new places that are **transforming the Trojan experience**.





Dr. Verna and Peter Dauterive Hall

Building the Future of USC

Dauterive Hall is a place where USC faculty members from diverse disciplines can collaborate on problems related to energy and the environment, world hunger, global financial policy, and more.

Connecting Scholars

Dr. Verna and Peter Dauterive Hall, USC's first interdisciplinary social sciences building, is designed to foster connections and creativity among scholars. It's a place where USC faculty members from diverse disciplines can collaborate on problems related to energy and the environment, world hunger, global financial policy, and more. Graced by a shimmering mobile, the six-story atrium has multiple study areas where students can work individually and in groups. Featuring graceful arches and Gothic flourishes, Dauterive Hall opened fall 2014. Among other distinctive programs, it houses the USC Leonard D. Schaeffer Center for Health Policy and Economics, the USC Schwarzenegger Institute for State and Global Policy, and the USC Dornsife Center for Economic and Social Research. Dauterive Hall was made possible by a gift from USC Trustee and alumna Dr. Verna B. Dauterive in memory of her late husband Peter W. Dauterive.



“I am excited about what will happen inside the building — gifted bright stars working together to change the world in wonderful ways that will create brighter futures for all societies.”

Dr. Verna B. Dauterive MEd '49, EdD '66
USC donor and trustee



Dr. Verna and Peter Dauterive Hall

USC Village will transform the University Park Campus and greatly enhance student residential life.

840,000

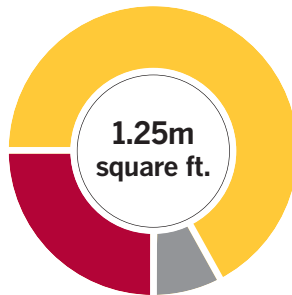
square ft. student
residential living
and fitness center

315,000

square ft. retail
and parking

95,000

square ft. other



“Not only will USC Village profoundly enrich our University Park Campus, it also will be a tremendous boon for our surrounding neighborhoods and for all of Los Angeles.”

C. L. Max Nikias

President of the University of
Southern California

Creating Community

Construction is now underway for **USC Village** — the 1.25 million square-foot Tuscan-style, student residential and retail center that will transform the University Park Campus and greatly enhance residential life. “Not only will USC Village profoundly enrich our University Park Campus, it also will be a tremendous boon for our surrounding neighborhoods and for all of Los Angeles,” said USC President C. L. Max Nikias. When completed in 2017, USC Village will house up to 2,700 students in a cluster of five residence hall buildings surrounding a grand plaza. The 15-acre site will also serve the surrounding neighborhood, providing a pedestrian-friendly mix of restaurants, retail shops, a grocery store, a fitness center and open spaces, and is expected to create thousands of permanent jobs and temporary construction jobs.



Tackling Health Challenges

The USC Michelson Center for Convergent Bioscience, the cornerstone of a new collaboration between the USC Dornsife College of Letters, Arts and Sciences and the USC Viterbi School of Engineering, aims to transform how research is conducted at the intersection of engineering and the life and biomedical sciences. In October 2014, USC broke ground on the center in the southwest quadrant of the University Park Campus, home to most of the university's science and engineering buildings. The Michelson Center will house the laboratories of 25 to 30 principal investigators, attracting hundreds of researchers and students. The center was made possible by a gift from Gary K. Michelson, a retired orthopaedic spinal surgeon and prolific inventor, and his wife, Alya.

Creating Performance Spaces

The USC Glorya Kaufman International Dance Center, a world-class facility located close to USC's other performing arts schools, will enhance an area of campus already dedicated to performance. With its recital stage and five dance studios, dance wellness center, dressing rooms, classrooms, faculty offices and a collaborative student space, the three-story building will be USC's hub for dancers, choreographers and scholars of dance. It will house USC's sixth arts school, the USC Glorya Kaufman School of Dance, combining a conservatory environment with the academic rigor of a major research institution. The Kaufman Center is slated to open in March 2016.



Wallis Annenberg Hall

“All of the spaces have been carefully designed to be connectors and not containers, to encourage those passing by the building to enter, to experiment, collaborate, innovate and learn.”

Ernest J. Wilson III

Dean of the USC Annenberg School for
Communication and Journalism





Inside Wallis Annenberg Hall, a multistory “digital media tower” continually showcases student-produced programming, social media content and live broadcast news.



Tearing Down Silos

“The incarnation of the Annenberg advantage.” That’s how Ernest J. Wilson III, dean of the USC Annenberg School for Communication and Journalism, describes **Wallis Annenberg Hall**. “All of the spaces have been carefully designed to be connectors and not containers,” Wilson says, “to be inviting and transparent, and to encourage those passing by the building to enter, to experiment, collaborate, innovate and learn.” Inside this high-tech, high-use building, a multistory “digital media tower” continually showcases student-produced programming, social media content and live broadcast news. The converged newsroom tears down the barriers that separate broadcast, print and digital journalism. An innovative 360-degree assignment desk is the nerve center of the school’s award-winning student news organizations. The building, which opened fall 2014, was initiated by a lead gift from the Annenberg Foundation at the direction of USC Trustee Wallis Annenberg.







Wallis Annenberg Hall's converged newsroom combines broadcast, print and digital journalism.



Opened in spring 2014, the Uytengsu Center is the new home for Trojan men's and women's swimming, diving and water polo teams.



Building Athletic Pride

The lights are on at 6 a.m., when athletes enter the **Uytengsu Aquatics Center** for the first of many workouts scheduled each day in the bustling new home for Trojan men's and women's swimming, diving and water polo teams. Opened in spring 2014, the Uytengsu Center includes a competition pool, diving well, training center, a two-tiered seating area, lounges and locker rooms. "I want to instill a source of pride for swimmers, divers and water polo athletes to make it a special experience during those long hours," said donor and 1983 swim team captain Fred Uytengsu, who requested that the competition pool be named after legendary Trojan swim coach Peter Daland. Uytengsu, president and CEO of Philippines-based Alaska Milk Corp., credits the coach with preparing him to be a leader.



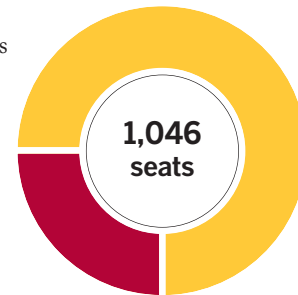
Fertitta Hall will feature state-of-the-art classrooms, a library and open meeting areas.

796

classroom seats

250

lecture hall
seats



Transforming the Business Student Experience

With the addition of **Jill and Frank Fertitta Hall**, USC Marshall School of Business undergraduates will have a new home to call their own. The new instructional facility will feature state-of-the-art classrooms, a library and open meeting areas. Funded by a lead gift from Jill and Frank Fertitta III, trustee and USC alumnus, the building is designed to foster collaborative and technology-enabled learning experiences. A gift from USC Marshall alumnus Michael R.B. Uytengsu will name the building's first floor. Fertitta Hall is slated for completion in fall 2016.

Meanwhile, a major renovation of Bridge Hall will create a state-of-the-art home for USC Marshall's international programs, including the pioneering World Bachelor in Business degree, which spans three continents. Renamed **Barrack Hall**, the renovation creates new research centers, classrooms, offices and gathering areas. Transformation of the original 1928 structure was made possible by a gift from USC Trustee Thomas J. Barrack Jr. and his family. "As an alumnus, I feel privileged to supply stewardship for the bricks, while Marshall, its dean, administration and faculty supply the intellectual mortar," said Barrack.

“I want to instill a source of pride for swimmers, divers and water polo athletes to make it a special experience during those long hours.”

Fred Uytengsu '83

USC donor and 1983 swim team captain





Uytengsu Aquatics Center





Designed to spark creativity — and disruption — the circular layout of the Iovine and Young Academy's Garage wraps fabrication studios, workstations and instructional spaces around a massive column that serves as a vertical whiteboard.

Disrupting the Status Quo

The inaugural class of the **USC Jimmy Iovine and Andre Young Academy for Arts, Technology and the Business of Innovation** moved into its new home — a 9,000-square-foot dynamic workspace dubbed “The Garage.” Designed to spark creativity — and disruption — the circular layout wraps fabrication studios, workstations and instructional spaces around a massive column that serves as a vertical whiteboard. Students can move and reconfigure the furniture, write on the walls and display 3-D models of their ideas for comments. Located on the fourth floor of the Ronald Tutor Campus Center, it's a fitting instruction/laboratory/studio space for a pioneering undergraduate program funded by music industry icons Jimmy Iovine and Andre Young (aka Dr. Dre) that stresses critical thinking and nurtures creativity at the intersection of art and design, engineering and computer science, and business and venture management. Led by the USC Roski School of Art and Design, the academy's academic partners include the USC Marshall School of Business, the USC Annenberg School for Communication and Journalism and the USC Viterbi School of Engineering, among others.





Students in the USC Jimmy Iovine and Andre Young Academy can move and reconfigure the furniture, write on the walls and display 3-D models of their ideas for comments.



USC's numerous distinguished guests in 2013-14 included President Barack Obama, former President George W. Bush and First Lady Laura Bush, and rock star Elton John.

USC Attracts Star Power

President Barack Obama, former President George W. Bush and First Lady Laura Bush, and rock star Elton John were among USC's distinguished guests in 2013-14.

Shoah Foundation Salutes President Obama

Appearing at the USC Shoah Foundation's 20th anniversary gala in May, President Obama received the Ambassador for Humanity Award from USC Trustee and Shoah Foundation founder Steven Spielberg.

"In the face of acts of inhumanity, President Obama has not stood by," said Spielberg. "He has staked our claim on shaping a better world."

President Obama, in turn, credited Spielberg with safeguarding Holocaust stories before they are lost to history and thanked the USC Shoah Foundation for "setting alight an eternal flame of testimony that can't be extinguished."

President's Distinguished Lecture Series Features President and Mrs. Bush

Former President George W. Bush and First Lady Laura Bush addressed USC guests, students and faculty in Bovard Auditorium as part of the USC President's Distinguished Lecture Series in November 2013.

The 43rd president spoke candidly about a range of topics, including the September 11 attacks, his foreign policy and the 2008 financial crisis, as well as the George W. Bush Presidential Center in Dallas, which opened in May. President and Mrs. Bush also reflected on their work in Africa, where they have



President C. L. Max Nikias, Steven Spielberg,
Provost Elizabeth Garrett, President Barack Obama



led efforts to combat HIV/AIDS, tuberculosis, malaria and cervical cancer.

Visions and Voices Presents Elton John

In September, Elton John rocked Bovard Auditorium with an impressive performance of greatest hits and new works. Backed by his longtime band and nearly 40 student musicians from the USC Thornton School of Music, he performed before a capacity crowd of 1,235 USC students who had won free tickets by lottery. Everyone in the audience also received a copy of John's new album, *The Diving Board*, courtesy of Capitol Records.

John invited the USC Thornton student musicians to perform with him again at the Emmy Award broadcast the following week. The students joined him on stage for "Home Again," a tribute to Liberace.

Keck Medicine of USC Expands Services

Keck Medicine of USC is expanding—in the geographical areas it serves, the pioneering procedures it offers patients, and the breadth of accomplished physicians it employs.

- USC extended its medical services to the Foothill communities of Los Angeles County with the acquisition of Verdugo Hills Hospital in Glendale. The rebranded USC Verdugo Hills Hospital delivers high-quality specialized care, clinical trials and breakthrough technology to the San Fernando Valley while retaining the convenience and personal touch of a community medical center.

- Keck Medicine of USC and Hoag Memorial Hospital Presbyterian recently established a new comprehensive cancer and oncology services program. The partnership links the Hoag Family Cancer Institute, Orange County's largest community cancer program, with the USC Norris Comprehensive Cancer Center, one of the nation's premier academic cancer centers.
- A Keck medical team was the first to perform auditory brainstem implant surgery on a 3-year-old boy born without a cochlear nerve. When the device was activated six weeks later, he heard sound for the first time. The procedure is revolutionary because it bypasses the inner ear entirely: the implant stimulates neurons directly at the human brainstem. Ten more devices will be implanted in deaf children as part of a five-year clinical trial.

Faculty Win International Acclaim

At 2 a.m. on October 9, 2013, Arieh Warshel got a life-changing phone call. The Royal Swedish Academy of Sciences had awarded him the Nobel Prize in chemistry.

Sharing the prize with Michael Levitt of Stanford University and Martin Karplus of the Université de Strasbourg and Harvard University, Warshel was recognized for "the development of multiscale models for complex chemical systems." Their combined efforts had exposed key principles behind computer simulations now deemed indispensable in the study of chemical reactions.

Recruited to teach at USC in 1976, the Distinguished Professor of Chemistry in the USC Dornsife College of Letters,



**“Distinguished Professor
Arieh Warshel is quite
simply a trailblazer of
the highest order.”**

Steve A. Kay

Dean of the USC Dornsife College
of Letters, Arts and Sciences

Arts and Sciences had persevered in the face of skepticism within the scientific community that computer modeling in chemistry would never yield more than pretty images.

For more than 35 years, Warshel not only conducted trailblazing research at USC, but served as a “beloved teacher and mentor who guided countless students toward making their own marks on the field,” said USC Dornsife Dean Steve A. Kay.

Warshel is the second Nobelist in USC’s chemistry department. Twenty years earlier, Distinguished Professor George Olah won the Nobel Prize in chemistry for his crucial work on reactive intermediates in hydrocarbons.

Olah recently earned another significant honor when he and Professor Surya Prakash received a first-ever prize from the state of Israel for their innovative research on alternative fuels.

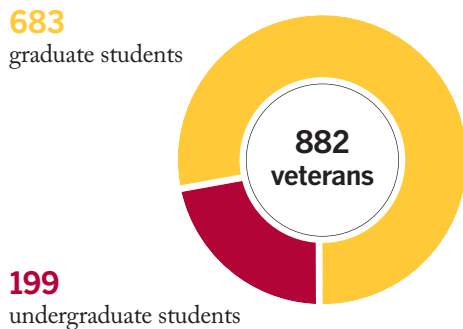
Veteran Programs Thrive at USC

In the last five years, the number of veterans enrolled at USC grew tenfold: up from 81 in 2008 to 882 in 2013. University programs to support veterans and their families have grown at an equally impressive rate.

Both USC’s location and its wide variety of academic offerings made it a magnet for the 199 undergraduate and 683 graduate students enrolled in the 2013-14 academic year.

California is home to the highest number of veterans nationwide, according to Anthony Hassan, director of the Center for Innovation and Research on Veterans & Military Families (CIR) at the USC School of Social Work. CIR was one of seven organizations awarded the Call of Duty Endowment’s

The number of veterans enrolled at USC grew tenfold: up from 81 in 2008 to 882 in 2013.



first Seal of Distinction for helping transitioning veterans gain meaningful employment.

The USC School of Social Work was the first research university to offer a military social work program. “One of our goals,” said Hassan, “is to train a workforce that can handle the demand for behavioral health services among our veterans, and I can’t think of a better way to do that than to prepare our veterans for a career in military social work.”

The USC Marshall School of Business is also preparing veterans to make the transition from military leadership to business success. Marshall’s innovative degree, the Master of Business for Veterans, graduated its first class in spring 2014. Students had high praise for the camaraderie they developed, the communication and networking skills they gained, and the jobs and fellowships they landed.

USC is addressing the special needs of military families. It recently launched the Provost’s Pre-college Summer Scholarship for Military High School Students, a tuition-free program that brings sons and daughters of active military or veteran families to campus for a month each summer to enroll in college-credit classes.

Trojans benefited from the experience of Gen. David Petraeus, who joined USC’s faculty in fall 2013 as Judge Widney Professor. The former CIA director and acclaimed Gulf War coalition force commander lectured students from a wide variety of disciplines — including law, public policy and business — on everything from leadership models to foreign policy. Petraeus also is serving as faculty adviser to

the USC Veterans Association and immersing himself in research on the unique needs of veterans and their families.

Jasmine Torres Fosters the Care of Others

Jasmine Torres has a lot going for her.

The newly minted Trojan graduate was a Norman Topping Scholar, a USC Neighborhood Academic Initiative Scholar, a Mellon Mays Undergraduate Fellow and recently started a new job at USC.

What Torres doesn’t have is a family and a home. She spent her teenage years in the Los Angeles County foster care system, moving from a homeless shelter to group homes, all while trying to stay focused on her goal—attending USC.

Torres isn’t unique. Although specific numbers are hard to calculate, it’s estimated that at least 40 USC undergraduates are current or former foster youth. While still a student, Torres was determined to help them.

“I decided to try to make sure that students from the foster care system didn’t feel like they were alone or didn’t belong here at USC,” she said. “Every USC student should be embraced by the Trojan Family.”

Torres founded the Trojan Guardian Scholars (TGS) program, designed to support ambitious, college-bound students exiting the foster care system. TGS officially launched in August 2013 and began assisting students immediately.

Torres credits the Neighborhood Academic Initiative (NAI), a six-year, pre-college program that prepares low-income students for college success, with giving her a sense of purpose. Through her many moves, she somehow



USC's game design program is a launching pad for future industry leaders. For the fourth year in a row it was ranked No. 1 in the country by *The Princeton Review*.

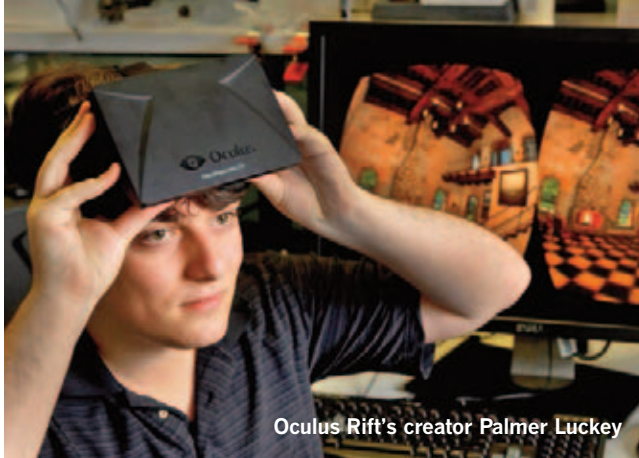
managed to continue attending Foshay Learning Center, one of the USC Family of Schools, and participating in the NAI.

Graduating last May with a bachelor's degree in sociology from the USC Dornsife College of Letters, Arts and Sciences, Torres recently joined USC's University Relations staff as a development associate. She plans to pursue a PhD in sociology and one day become a professor. Her legacy — the Trojan Guardian Scholars Program — is paving the way for other foster youth to succeed at USC.

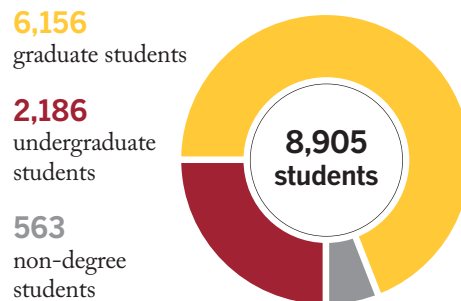
Merging Art and Technology

USC is a creative mecca for students and faculty whose passions lie at the intersection of art and technology. A few examples:

- *The Princeton Review*, for the fourth straight year, ranked USC's game design graduate program No. 1 in the country. The program incorporates elements of design, artistry and engineering and serves as a launching pad for future industry leaders.
- Reflecting the expanding definition of contemporary art practice, the USC Roski School of Fine Arts changed its name to USC Roski School of Art and Design. Already known for its intra-disciplinary curriculum, the school introduced its first course in graphic design for fashion marketing and announced a new 3-D design minor. The Roski School's program in multimedia and visual communication currently ranks eighth in the nation according to *U.S. News & World Report*.



For the 12th year in a row, USC has more international students than any other U.S. university.



- USC's Mixed Reality (MxR) Lab is pushing the boundaries of human-computer interaction and the open-source movement. Run by Mark Bolas, associate director of USC's Institute for Creative Technologies, the MxR Lab's doors are open to students and "pre-students" of all backgrounds. That policy paid off when a young virtual reality enthusiast named Palmer Luckey visited the lab and asked if he could stay on. Luckey, now 21, has taken the tech world by storm with Oculus Rift, the consumer-gearred virtual reality headset he recently sold to Facebook for \$2 billion. Seeing Luckey's success is a source of pride to Bolas. "I believe a big part of my job is helping to develop amazing people," he said.

Global Leadership

USC's global reach grew in many ways this year. A few highlights:

Enhancing Arts Scholarship

In November 2013, USC forged a new partnership with the venerable Pacific Asia Museum. The relationship preserves the museum's 1924 Chinese Qing Dynasty-inspired mansion in Pasadena as an art museum while laying the foundation for Pacific Rim-centered museum studies and curatorial training programs at USC.

Christina Yu Yu leads the newly named USC Pacific Asia Museum. Recruited from the Los Angeles County Museum of Art, she has already begun to tap into USC's strengths—among them, more than 6,000 students pursuing arts-related degrees.

Attracting International Students

For the 12th year in a row, USC has more international students than any other U.S. university according to the 2013 *Open Doors* report released by the Institute of International Education. Foreign enrollment stands at 8,905 Trojans representing 115 countries.

Strengthening USC's Southeast Asia Presence

President C. L. Max Nikias led a delegation of deans and trustees to Singapore and Jakarta, Indonesia, in February 2013. In addition to strengthening ties with top universities there, the trip helped connect USC's strong base of alumni, parents and supporters in the region.

"Southeast Asia plays a vital role for us, given its location in the Pacific Rim, its focus on innovation and our ambition to attract the world's most talented and creative students," said Nikias.



Academic Highlights

In 2013-14, USC launched numerous academic programs: five undergraduate degrees, 15 minors, 29 graduate degrees and 14 graduate certificates.

USC Leventhal School of Accounting

USC Leventhal School of Accounting is a recognized leader in global accounting education, scholarship and research. Ranked among the top five accounting programs in the United States by *U.S. News & World Report*, USC Leventhal continues to set the national standard for expert professional training and high academic achievement. Under the direction of Dean William W. Holder, the school has been at the forefront of efforts to address rigorous new educational licensure standards in the accounting profession, as well as evolving societal expectations of the field. USC Leventhal is synonymous with opportunity and excellence: This year, the school sent graduate students to Washington, D.C., providing them with a fuller understanding of accounting's role in capital markets and taxation systems. Its reputation for path-breaking innovation makes USC Leventhal a central destination for thought leaders such as former Securities and Exchange Commission Chairman and USC Trustee Christopher Cox, who gave the keynote address at the school's 33rd annual SEC Conference in June.

USC School of Architecture

This year marks 100 years of architecture at USC. While honoring its history, the USC School of Architecture has much to celebrate



in the present. Its undergraduate program ranks seventh in the nation according to *DesignIntelligence*, the most comprehensive rankings for U.S. architecture programs. USC placed in the top five in the categories of analysis and planning, communication, construction methods and materials, cross-disciplinary teamwork, design, and sustainable design practices and principles. *DI* also named Dean Qingyun Ma one of the 30 “Most Admired Educators” of 2014. USC architecture students built the innovative, net-zero *fluxHome*, competing against 19 teams from schools around the world at the 2013 Solar Decathlon. They placed third in architecture, first in appliances, first in energy balance, and tenth overall in the U.S. Department of Energy-sponsored competition. USC faculty garnered awards in teaching and creative practice as well as research funding.

USC Roski School of Art and Design

In November 2013, the USC Roski School of Fine Arts changed its name to the USC Roski School of Art and Design, reflecting the inclusivity of contemporary art practice and recognizing the long-standing impact of the design discipline on the school and its alumni. Last spring, researchers at the Eli and Edythe Broad Center for Regenerative Medicine

and Stem Cell Research at USC invited USC Roski students to find inspiration under the microscope. The results of the lab-based partnership yielded outsized environmental graphics, type treatments and paintings for the Broad Center. The collaboration continues through the current academic year. Additionally, the USC Jimmy Iovine and Andre Young Academy for Arts, Technology and the Business of Innovation admitted its inaugural class of 31 students, who quickly settled into The Garage, the academy’s state-of-the-art classroom, lab and workspace (see page 21).

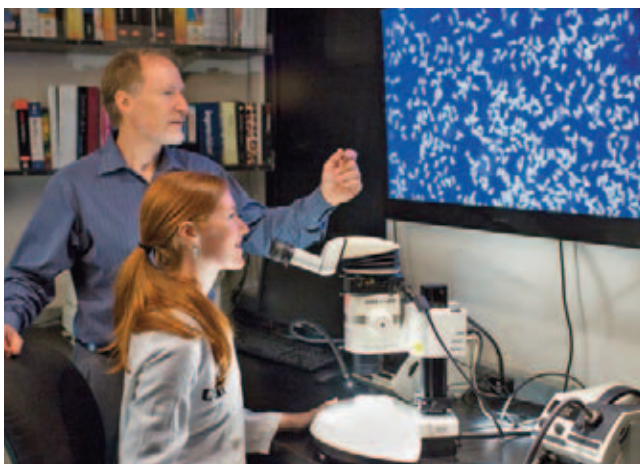
Division of Biokinesiology and Physical Therapy

USC’s Division of Biokinesiology and Physical Therapy continues its strong legacy of excellence and leadership within the profession. USC Associates recognized faculty member Rob Landel with its award for excellence in teaching. Beth Fisher became the 12th Trojan honored as a Catherine Worthingham Fellow of the American Physical Therapy Association (APTA), a distinction reserved for physical therapists who propel the profession forward through leadership and excellence. Associate Dean and Division Chair James Gordon became the fourth Trojan to deliver the prestigious McMillan lecture at the APTA NEXT Conference. Division students, meanwhile,

demonstrated policymaking leadership, setting a new point record in APTA’s 2013 National Student Advocacy Challenge. Working in 13 state-of-the-art laboratories, faculty and students extended the canon of applied knowledge in the areas of aging; new treatment methods for pain, infant and child development; and patients with Parkinson’s disease and cancer.

USC Marshall School of Business

While solidifying its reputation as the leading business school for those interested in globally connected careers, USC Marshall continues to innovate under the leadership of Dean James G. Ellis. The first business school in the country to make overseas travel and experiential study a standard part of the curriculum for all students—undergraduates through MBAs—the Marshall School now operates 15 international programs, including the unique World Bachelor in Business (WBB) degree program. Students in the WBB rotate through USC Marshall, Hong Kong University of Science and Technology and Milan’s Università Commerciale Luigi Bocconi and receive business degrees from all three schools. In 2014, USC Trustee Thomas J. Barrack Jr. and his family made a generous gift to transform the school’s



original building into a hub for international business thought leadership (see page 17).

USC School of Cinematic Arts

Alumni from the USC School of Cinematic Arts (SCA) continue to dominate the industry. Kevin Feige's film "Captain America: The Winter Soldier" topped the 2014 box office list, while Asher Vollmer's mobile game "Threes" led the Apple App Store download list. Student filmmakers earned accolades for the comedy "In Passing," winner of a student Emmy, and the animated short "Passer Passer," nominated for a student Academy Award. The Comedy@SCA initiative got a boost as the school launched a minor in comedy, solidifying its growing reputation in this field. SCA announced six new endowed chairs this year, bringing the school's total to 25. Additionally, it opened the cutting-edge Michelle and Kevin Douglas IMAX Theatre and Immersive Lab, where students can explore large-format filmmaking and immersive experiences.

USC Dornsife College of Letters, Arts and Sciences

USC Dornsife took major strides this year toward making its science program among the most competitive in the country. On

October 9, 2013, Distinguished Professor Arieh Warshel was awarded a Nobel Prize in Chemistry (see page 25). Momentum continued with the January announcement of a major gift to construct the USC Michelson Center for Convergent Bioscience (see page 9). In other news, the USC Shoah Foundation established the Center for Advanced Genocide Research to study how and why mass violence occurs and how to best intervene. USC Dornsife also continued to build its innovative programs in quantitative social science, including the Center for Economic and Social Research and its work in behavioral economics. In conjunction with the USC Career Center's Professional Pathway program, USC Dornsife launched 21 academic courses offering career exploration, fieldwork and internship opportunities for more than 500 undergraduates.

USC Annenberg School for Communication and Journalism

This year marks a "New Building, New Program, New Era" for USC Annenberg. The school's second building in the heart of campus, the technologically transformative Wallis Annenberg Hall opened fall 2014 (see page 12). Also making their debuts in 2014 were the Blackstone LaunchPad entrepreneurship incubator and the USC

Annenberg Institute on Diversity in Media and Culture. The school also launched a nine-month MS degree in journalism and its new MS in digital social media. The 2014-2015 academic year brings new leadership to USC Annenberg: joining Dean Ernest J. Wilson III is Sarah Banet-Weiser, director of the School of Communication, and Willow Bay, director of the School of Journalism.

USC Glorja Kaufman School of Dance

The USC Glorja Kaufman School of Dance is preparing to welcome its inaugural class in fall 2015. It broke ground on its future home, the 54,000-square foot Glorja Kaufman International Dance Center (see page 9); it received university approval for a unique Bachelor of Fine Arts in dance degree and two interdisciplinary minors, including the innovative Dance in Popular Culture: Hip Hop, Urban and Social Dance, and it continued to recruit outstanding staff and faculty, including celebrated choreographer William Forsythe. USC Kaufman also expanded its services to USC students through an array of courses for non-majors and minors. A year before the official opening, it already enrolls close to 1,000 students a year in dance classes.



Herman Ostrow School of Dentistry of USC

The Herman Ostrow School of Dentistry of USC continues its legacy of excellence. For the second consecutive year, it was ranked the top-funded private dental school by the National Institute of Dental and Craniofacial Research. The school also continued investing in infrastructure: it opened the VITA CAD/CAM Learning Laboratory, a sleek, new space housing 3-D printers for dental restorations; it partnered with Bien-Air USA to install one of the nation's largest collections of electronic hand-pieces; and it teamed with the Hutto-Patterson Charitable Foundation to build the nation's largest mobile dental clinic. This year marked the graduation of Ostrow's first class taught entirely under the new learner-centered curriculum, highlighted in the February 2014 issue of the *Journal of Dental Education*. Finally, Ostrow launched the Division of Oral and Maxillofacial Surgery, a unique partnership with the Keck School of Medicine of USC's Division of Plastic and Reconstructive Surgery.

USC School of Dramatic Arts

It was a dynamic year for the top-ranked USC School of Dramatic Arts, marked by achievements and recognition for its faculty, students and alumni. The school welcomed an impres-

sive list of visiting artists, including Tony- and Emmy-winning actor David Hyde Pierce, Pulitzer Prize-winning playwrights Tony Kushner and Paula Vogel, Emmy-winning actor Michael Chiklis, and Tony-winning composer and lyricist Jeff Marx. On the international scene, the school established a collaboration with Shanghai Theatre Academy, one of China's finest actor-training programs. Closer to home, it inaugurated a partnership with The Pasadena Playhouse to develop the work of emerging playwrights from the dramatic writing MFA program. And on the East Coast, the school held its first New York City showcase for graduating actors, a complement to the successful Los Angeles showcases. Among faculty distinctions, Luis Alfaro was named the first-ever resident playwright of the Oregon Shakespeare Festival.

USC Rossier School of Education

USC Rossier's mission to improve learning in urban education locally, nationally and globally made demonstrable progress this year. The school graduated its first Global Executive EdD cohort, preparing senior education professionals from places like Brazil, Brunei, Singapore, Taiwan and Dubai to improve their national education systems. In the virtual sphere, a landmark 2,000

students graduated from USC Rossier's online Master of Arts in Teaching program, a large majority of them now working in hard-to-staff schools. Locally, USC Hybrid High School, the neighborhood public charter developed by USC Rossier, showed dramatic academic gains for its students. As education reform remained a hot-button issue in America, journalists called on USC Rossier faculty to explain complex issues surrounding teachers' unions, job protections, Common Core and equity in K-12 classrooms. In new research, USC Rossier faculty are working with a grant from the Mattel Children's Foundation to study the use of toys to teach critical math and science concepts.

USC Viterbi School of Engineering

This year USC Viterbi chalked up important scientific firsts. The USC Lockheed Martin Quantum Computing Center is the world's first operational quantum computing system at a university. Meanwhile, the world's first artificial retina, developed by USC professor of biomedical engineering and ophthalmology, Mark Humayun, received FDA approval in 2013. USC Viterbi continues to lead the way in entrepreneurship with Southern California's only venture accelerator for student-led engineering companies, the USC Viterbi



Startup Garage. The Distance Education Network, DEN@Viterbi, remains a top online graduate engineering program; it ranked No. 1 in online computer information technology programs (computer science) in *U.S. News & World Report*. USC Viterbi continues to recruit transformative faculty; since 2009, nine of its junior faculty have made *MIT Technology Review*'s list of "The World's 35 Top Innovators under the Age of 35."

USC Davis School of Gerontology

As demand grows for innovation in response to issues that face older adults, USC Davis continues to supply solutions and leadership. In January 2014, longtime faculty member Eileen Crimmins was named a University Professor. Recently elected to the Institute of Medicine, she is an internationally recognized for her research, which focuses on the connections between socioeconomic factors and life expectancy. Crimmins is the AARP Chair in Gerontology and director of the USC/UCLA Center on Biodemography and Population Health. This year, USC Davis also welcomed Chaghan "David" Lee to its faculty. An alumnus who received his PhD in genetic, molecular and cellular biology, Lee specializes in the metabolic regulation of aging and age-related diseases.

USC Gould School of Law

This year, USC Gould was recognized as a top law school for federal clerkship placements by *U.S. News & World Report*, ranked No. 2 for entertainment law by the *Hollywood Reporter*, and named one of the top law schools for Hispanics by *HispanicBusiness.com*. Several innovative programs were unveiled this year, including an online Master of Laws program for international students and a six-year accelerated BA/JD program. USC Gould faculty continued to receive national recognition. Tom Lyon was awarded the 2014 Provost's Mentoring Award; *The New York Times* called Ed Kleinbard "a rock star in the world of tax law"; and Emily Ryo won an honorable mention for best article by the American Sociological Association. While applications were down at law schools nationally, USC Gould enjoyed a 6 percent increase, enrolling one of its strongest classes ever.

USC Libraries

In 2014 USC Libraries launched a new postdoctoral fellowship in partnership with the Huntington-USC Institute on California and the West. The Doheny Postdoctoral Scholar program brings to USC new PhDs who will use the libraries' world-class California history collections to conduct original research. Shaun Ossei-Owusu, the inaugural

Doheny Scholar, is examining the evolution of L.A.'s public health and criminal justice bureaucracies and their relationship to race, class, gender and citizenship. The Doheny Postdoctoral Scholar Program joins the USC Libraries' Geographic Information Science Fellow and the Bioinformatics Program in supporting two distinctive USC strengths—a strong connection to Los Angeles and Southern California and a commitment to leadership in data and informatics initiatives on a global scale.

Keck Medicine of USC

Keck Medicine of USC—the university's academic, research and clinical enterprise—continued rapid growth in its second fiscal year with groundbreaking developments, partnerships and new joint ventures. The Keck Medical Center of USC was the world's first institution to implant a responsive neurostimulation device in the brain to treat epilepsy. Solid performance continued in fiscal year 2013-14 with patient admissions, outpatient surgeries and revenue all increasing significantly. Major highlights included continuing expansion into the foothill communities of the San Gabriel Valley through integration of USC Verdugo Hills Hospital, and entry into Orange County through an affiliation with Hoag Memorial



Hospital Presbyterian. Construction crews broke ground on a new USC Norris Health Care Center that will expand access to advanced cancer therapies on the Health Sciences Campus.

Keck School of Medicine of USC

In 2013, Keck School of Medicine of USC added 183 outstanding physicians, scientists and educators to its 1,466-person faculty. Its incoming class of 186 students had the highest collective GPA (3.7) and MCAT scores (34.11) in the school's history. While many academic medical centers saw declines in research funding during fiscal year 2013-14, Keck School had an increase in sponsored research. The school continued to develop infrastructure that supports clinical research excellence, with the opening of a clinical trials office for USC. Children's Hospital Los Angeles, Keck Medical Center, USC Norris Comprehensive Cancer Center and the Southern California Clinical and Translational Science Institute. A clinical data warehouse for research and a clinical trials management system are currently being implemented.

USC Thornton School of Music

USC Thornton had an outstanding year. It welcomed celebrated violinist Glenn Dicterow, concertmaster of the New York Philharmonic,

to its faculty. Conductor Michael Tilson Thomas, National Medal of Arts winner and double Thornton alumnus, was named a Judge Widney Professor of Music at USC. USC Thornton established the Pacific Alliance of Music Schools with peer institutions in Asia and the Pacific and became the first university affiliate of The GRAMMY Museum. Thornton students won competitions, signed recording contracts and performed across the world. Highlights include keyboard studies student Evan Pensis, who won the Grand Prize at the 9th International Siegfried Weishaupt Piano Competition, and popular music student Jackson Morgan, who signed a publishing contract and had songs recorded by several pop stars. The USC Thornton Symphony was invited to perform again at Walt Disney Concert Hall, and the USC Thornton Chamber Singers traveled to Asia as the only choir from North America invited to appear at the China International Chorus Festival.

Mrs. T.H. Chan Division of Occupational Science and Occupational Therapy

This year, the division continued demonstrating the excellence for which it has earned *U.S. News & World Report's* number one graduate programs ranking for more years than all other nationwide programs combined. Faculty leaders successfully led the division through its internal academic review of doc-

toral degree programs and its external accreditation review. The division launched the Sensory Integration, Engagement and Family Life Initiative, a targeted effort to expand interdisciplinary translational research to improve the well-being of people with autism and other developmental disorders. USC's chapter of the Pi Theta Epsilon national honor society received the President's Award in recognition of outstanding student scholarship in occupational therapy. Faculty published research articles in more than 20 peer-reviewed journals.

USC School of Pharmacy

The 2013-14 academic year paved a strong road for the future of the USC School of Pharmacy. In November, the school launched its fundraising initiative as part of the Campaign for USC, and by fiscal year end had already raised significant funds to support scholarships, research and other academic priorities. The school hosted a national conference in February exploring ways to optimize medication safety and health care quality. One school-wide strategy for improving health care is through pharmacy team practice in area safety-net clinics: this approach shows potential as a national model. The school launched a new master's program in health care decision analysis, created to prepare the next generation of leaders in the



The USC School of Pharmacy created a new master's program in health care decision analysis to prepare leaders in the pharmaceutical industry.

pharmaceutical industry, biotech, specialty pharmacy and diagnostics. Also underway are multiple clinical trials of new therapeutics targeting Alzheimer's disease, cancer, alcohol abuse and other pressing needs.

USC Sol Price School of Public Policy

The USC Sol Price School of Public Policy reached two milestones in 2013-14. It secured the largest amount of funding from research grants in school history and passed the 70 percent mark of its fundraising initiative goal. In March, Retired Gen. David H. Petraeus was keynote speaker for an event that raised scholarship support for undergraduate veterans and ROTC students. Locally, USC Price's Center for Economic Development partnered with the city of Los Angeles, helping L.A. receive federal designation as a "Manufacturing Community," which gives preferential access to \$1.3 billion in government funding for aerospace and manufacturing. Nationally, Dean Jack Knott met with members of Congress to advocate for federal support of social science research. In addition, USC Price faculty from the Schaeffer Center for Health Policy & Economics briefed lawmakers on Capitol Hill about the value of comprehensive diabetes management.

USC School of Social Work

This year, the USC School of Social Work graduated its largest class, conferring 1,300 master's degrees. It also launched the first MSW program based within a child and family services agency, providing employees a tuition-assisted degree option they can complete online while still working. The Gerontological Society of America and Hartford Foundation selected USC to establish an academic center in geriatric social work to train future practitioners. Top faculty made major policy contributions: Hortensia Amaro served on the Institute of Medicine committee that recommended the U.S. Department of Defense incorporate evidence-based research into psychological services for military service members and their families; and Avelardo Valdez served on the National Research Council committee that recommended an overhaul of criminal justice policies to reduce incarceration rates. Overseas, USC social work faculty provided trauma response training to local agencies in the Philippines following Typhoon Haiyan and advised Taiwanese officials on developing an academic program in military social work as that country moves to an all-volunteer force.

Financial Statements 2014

Report of Independent Auditors

To the Board of Trustees of the University of Southern California

We have audited the accompanying consolidated financial statements of the University of Southern California and its subsidiaries, which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of activities and cash flows, which appear on pages 39 through 55, for the year then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the university's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Southern California and its subsidiaries at June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the university changed the manner in which it accounts for the classification of the sale proceeds of donated financial assets in the statement of cash flows for the year ended June 30, 2014.

Other Matter

We have previously audited the university's June 30, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 9, 2013. As discussed in Note 1 to the accompanying consolidated financial statements, the university changed the manner in which it accounts for the classification of the sale proceeds of donated financial assets in the statement of cash flows in the year ended June 30, 2014. The accompanying June 30, 2013 cash flows statement reflects this change. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, before the change in the manner in which the university accounts for the classification of the sale proceeds of donated financial assets in the statement of cash flows, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Los Angeles, California
October 9, 2014

Consolidated Balance Sheet

in thousands

	June 30 2014	June 30 2013
	A	B
Assets		
1 Cash and cash equivalents	\$442,423	\$451,625
2 Accounts receivable, net	352,221	325,558
3 Notes receivable, net of allowance for doubtful accounts, \$5,580 (2014), \$6,081 (2013)	84,696	84,914
4 Pledges receivable, net	577,027	519,922
5 Investments	5,390,233	4,708,535
6 Inventories, prepaid expenses and other assets	204,348	161,801
7 Property, plant and equipment, net	2,928,043	2,537,902
8 Total Assets	\$9,978,991	\$8,790,257
Liabilities		
9 Accounts payable	\$211,271	\$228,326
10 Accrued liabilities	420,446	342,460
11 Refundable advances	16,936	17,365
12 Current portion of long-term debt	7,120	10,855
13 Deposits and deferred revenue	163,920	159,713
14 Actuarial liability for annuities payable	149,047	148,346
15 Federal student loan funds	67,952	67,706
16 Asset retirement obligations	109,210	104,841
17 Capital lease obligations	125,742	59,102
18 Long-term debt	1,237,895	1,262,251
19 Other liabilities	6,864	4,433
20 Total Liabilities	2,516,403	2,405,398
Net Assets		
21 Unrestricted	3,417,909	2,908,437
22 Temporarily restricted	1,966,794	1,586,567
23 Permanently restricted	2,077,885	1,889,855
24 Total Net Assets	7,462,588	6,384,859
25 Total Liabilities and Net Assets	\$9,978,991	\$8,790,257

The accompanying notes are an integral part of this statement.

Consolidated Statement of Activities

in thousands | with summarized financial information as of June 30, 2013

	Year Ended June 30, 2014				Year Ended June 30, 2013
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets	Total Net Assets
	A	B	C	D	E
Revenues					
1 Student tuition and fees	\$1,602,331			\$1,602,331	\$1,488,276
2 Less financial aid	(440,014)			(440,014)	(413,465)
3 Net student tuition and fees	1,162,317			1,162,317	1,074,811
4 Endowment income	50,521		\$438	50,959	66,247
5 Investment and other income	10,792		222	11,014	11,926
6 Net appreciation in fair value of investments	216,934	\$503,164	19,239	739,337	350,562
7 Contracts and grants	452,724			452,724	446,645
8 Contributions	406,237	129,298	180,740	716,275	550,151
9 Sales, services and other	170,991			170,991	134,200
10 Auxiliary enterprises	296,335			296,335	273,224
11 Health care services	1,167,345			1,167,345	961,616
12 Present value adjustment to annuities payable		(1,050)	(5,787)	(6,837)	(7,915)
13 Net assets released from restrictions/redesignations	258,007	(251,185)	(6,822)		
14 Total Revenues	4,192,203	380,227	188,030	4,760,460	3,861,467
Expenses					
15 Educational and general activities	2,312,932			2,312,932	2,144,565
16 Health care services	1,122,176			1,122,176	904,627
17 Depreciation and amortization	180,953			180,953	161,285
18 Interest on indebtedness	66,670			66,670	63,307
19 Total Expenses	3,682,731			3,682,731	3,273,784
20 Increase in Net Assets	509,472	380,227	188,030	1,077,729	587,683
21 Beginning Net Assets	2,908,437	1,586,567	1,889,855	6,384,859	5,797,176
22 Ending Net Assets	\$3,417,909	\$1,966,794	\$2,077,885	\$7,462,588	\$6,384,859
Nature of specific net assets					
23 Internally designated	\$35,499			\$35,499	\$37,355
24 Departmentally designated	725,370			725,370	602,051
25 Externally restricted		\$35,221	\$27,914	63,135	100,041
26 Pledges		288,879	288,148	577,027	519,922
27 Unexpended endowment income	196,094			196,094	189,050
28 Annuity and living trusts		50,683	90,830	141,513	122,467
29 True endowment and net appreciation		1,592,011	1,670,993	3,263,004	2,733,992
30 Funds functioning as endowment	1,330,010			1,330,010	1,134,363
31 Debt service funds	78,432			78,432	70,329
32 Invested in plant	1,052,504			1,052,504	875,289
33	\$3,417,909	\$1,966,794	\$2,077,885	\$7,462,588	\$6,384,859

The accompanying notes are an integral part of this statement.

Consolidated Statement of Cash Flows

in thousands

	Year Ended June 30, 2014	Year Ended June 30, 2013
	A	B
Cash Flows from Operating Activities		
1 Change in Net Assets	\$1,077,729	\$587,683
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
2 Depreciation and amortization	180,953	161,285
3 Loss on the disposal/sale of plant assets	3,755	452
4 In-kind receipt of property, plant and equipment	(99,443)	(170)
5 Present value adjustment to annuities payable	7,137	7,273
6 Increase in accounts receivable	(26,663)	(26,799)
7 Increase in pledges receivable	(178,016)	(156,652)
8 Increase in inventories, prepaid expenses and other assets	(41,281)	(7,560)
9 (Decrease) increase in accounts payable	(3,700)	49,950
10 Increase in accrued liabilities	89,836	5,548
11 Decrease in refundable advances	(429)	(1,594)
12 Increase in deposits and deferred revenue	4,207	6,455
13 Increase (decrease) in other liabilities	2,431	(5,482)
14 Contributions restricted for property, plant and equipment and permanent investment	(207,231)	(145,140)
15 Net realized gain on sale of investments	(327,705)	(183,851)
16 Net unrealized appreciation in investments	(411,786)	(166,784)
17 Net cash provided by operating activities	69,794	124,614
Cash Flows from Investing Activities		
18 Proceeds from note collections	11,939	12,193
19 Notes issued	(11,219)	(12,777)
20 Proceeds from sale and maturity of investments	4,158,861	2,721,081
21 Purchase of investments	(4,129,737)	(3,194,592)
22 Purchase of property, plant and equipment	(420,755)	(371,979)
23 Net cash used in investing activities	(390,911)	(846,074)
Cash Flows from Financing Activities		
Contributions restricted for permanent investment:		
24 Endowment	160,052	152,168
25 Plant	165,703	100,577
26 Trusts and other	2,388	3,175
27 Repayment of long-term debt	(10,037)	(56,344)
28 Proceeds from issuance of long-term debt		71,095
29 Increase in federal student loan funds	245	296
30 Investment (loss) gain on annuities payable	(20)	2,633
31 Payments on annuities payable	(13,082)	(13,145)
32 Increase to annuities payable resulting from new contributions	6,666	6,230
33 Net cash provided by financing activities	311,915	266,685
34 Net decrease in cash and cash equivalents	(9,202)	(454,775)
35 Cash and cash equivalents at beginning of year	451,625	906,400
36 Cash and cash equivalents at end of year	\$442,423	\$451,625

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

Note 1

Significant accounting policies followed by the University of Southern California are set forth below:

The University of Southern California is a not-for-profit, major private research university. 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 require the university to classify its net assets into three categories according to donor-imposed restrictions or provisions of law: unrestricted, temporarily restricted, or permanently restricted. All material transactions between the university and its subsidiaries have been eliminated.

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.

Unrestricted net assets:

Education and general: Education and general include the revenues and expenses associated with the principal educational mission of the university.

Health care services: Health care services are reflective of the revenues and expenses associated with Keck Hospital of USC, USC Norris Cancer Hospital, USC Verdugo Hills Hospital, the Professional Services Agreement with Los Angeles County and USC Care Medical Group, Inc., a primary care and multi-specialty physician practice corporation.

Sponsored research and departmental activities: Sponsored research agreements recognize revenue as it is earned through expenditure in accordance with the agreement. Any funding received in advance of expenditure is recorded as refundable advances. Departmental net assets include contributions to the university and its various schools and departments. The university has determined that any donor-imposed restrictions of contributions for current or developing programs and activities are generally met within the operating cycle of the university and, therefore, the university's policy is to record these net assets as unrestricted. Internally designated net assets are those which have been appropriated by the Board of Trustees or designated by management.

Unexpended plant and debt service funds: Unexpended plant and debt service net assets include contributions and income earned on unexpended balances for capital projects which are currently under construction and transfers from the operating budget to fund the debt service requirements for outstanding bonds, notes and mortgages payable. The university follows the policy of lifting the restrictions on contributions of cash or other assets received for the acquisition of long-lived assets when the restrictions are fulfilled or the assets are placed in service.

Invested in plant: Invested in plant assets, including collections of works of art and historical treasures, are stated at cost or fair value at the date of contribution, plus the estimated value of any associated legal retirement

obligations, less accumulated depreciation, computed on a straight-line basis over the estimated useful or component lives of the assets (equipment and library books useful lives ranging from 4 to 10 years and buildings component lives ranging from 5 to 50 years). Equipment is removed from the records at the time of disposal. The university follows the policy of recording contributions of long-lived assets directly in invested in plant assets when the purpose or time restriction is met instead of recognizing the contribution over the useful life of the asset.

Long-term investment: Long-term investments include contributions and Board of Trustee designations to funds functioning as endowment, realized and unrealized gains and reinvested income (income earned in excess of the spending rule) on all endowment funds.

Student loan: Student loan net assets include lending activity to students utilizing university resources designated for that purpose.

Temporarily restricted net assets:

Contributions for which donor imposed restrictions have not been met (primarily future capital projects), charitable remainder unitrusts, pooled income funds, gift annuities and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted are included in temporarily restricted net assets.

Permanently restricted net assets:

Contributions, charitable remainder unitrusts, pooled income funds, gift annuities and pledges receivable which require by donor restriction the investment of the corpus in perpetuity, net appreciation on true endowment and only the income be made available for program operations in accordance with donor restrictions and contributions which have been donor stipulated to provide loans to students are included in permanently restricted net assets.

Other accounting policies:

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

Investments are stated at fair value. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the Consolidated Statement 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.

Notes to Consolidated Financial Statements

Note 1 (continued)

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

The university receives federal reimbursement for a portion of the costs of its facilities and equipment used in organized sponsored research. The Office of Management and Budget, Circular A-21, 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.

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

The university's split interest agreements with donors consist primarily of gift annuities, unitrusts, pooled income funds and life estates. For irrevocable agreements, assets contributed are included in the university's investments and stated at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially-determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is discounted at an appropriate risk-adjusted rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on split-interest agreements range from 3.0% to 9.5%. The liabilities are adjusted during the terms of the trusts for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. The valuation followed generally accepted actuarial methods and was based on the requirements of FASB ASC 958. The Annuity 2000 Mortality Table and 1983 Individual Annuity Mortality Table for males and females were used in the valuations. For split interest agreements related to the State of Washington, the university holds a Certificate of Exemption issued by the State of Washington's Office of Insurance Commissioner to issue charitable gift annuities. The university has been in compliance with Revised Code of Washington 48.38.010(6) throughout the time period covered by the financial statements.

The university has recorded conditional asset retirement obligations associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in our 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 was estimated using a probability weighted, discounted cash flow model. The present value of future estimated cash flows was 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 year ended June 30, 2014, the university recognized accretion expense related to the conditional asset retirement obligation of approximately \$5,420,000. For the year ended June 30, 2014, the university settled asset retirement obligations of approximately \$1,653,000. As of June 30, 2014, included in the Consolidated Balance Sheet is an asset retirement obligation of \$109,210,000.

Contributions from donors, including contributions receivable (unconditional promises to give), are recorded as revenues in the year received. Contributions are valued using quoted market prices, market prices for similar assets, independent appraisals, or by university management. Contributions receivable are reported at their discounted value using credit-adjusted borrowing rates and an allowance for amounts estimated to be uncollectible is provided. Donor-restricted contributions, which are received and either spent, or deemed spent, within the same year, are reported as unrestricted revenue. Contributions of long-lived assets with no donor-imposed time restrictions are reported as unrestricted revenue in the year received. Contributions restricted to the acquisition or construction of long-lived assets or subject to other time or purpose restrictions are reported as temporarily restricted revenue. The temporarily restricted net assets resulting from these contributions are released to unrestricted net assets when the donor-imposed restrictions are fulfilled or the assets are placed in service. Contributions received for endowment investment are held in perpetuity and recorded as permanently restricted revenue.

Health care services revenues included the net patient service revenues associated with the Keck Hospital of USC, USC Norris Cancer Hospital, USC Verdugo Hills Hospital and USC Care Medical Group, Inc. Net patient service revenue is reported as estimated net realizable amounts from patients, third party payors, government programs and other in the period in which services are provided. The majority of the health care services are rendered to patients with commercial or managed care insurance, or under the federal Medicare and California State Medi-Cal programs. Reimbursement from these various payors is based on a combination of prospectively determined rates, discounts from charges and historical costs. Amounts received under the Medicare program are subject to retroactive settlements based on review and final determination by program intermediaries or their agents. Provisions for contractual adjustments and retroactive settlements related to those payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as additional information becomes known or as final settlements are determined. Health care services revenues also includes the revenues associated with the professional services agreement with the County of Los Angeles.

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

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

Notes to Consolidated Financial Statements

Note 1 (continued)

The financial statements include certain prior-year summarized comparative information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. The footnotes do not contain prior year information. Accordingly, such information should be read in conjunction with the university's financial statements for the year ended June 30, 2013 from which the summarized financial information was derived. Certain reclassifications have been made to summarized financial information for comparative purposes.

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

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

- Level I - Quoted prices in active markets for identical assets or liabilities.
- Level II - Inputs other than Level I that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level III - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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, 2014, the fair

value of all such investments in investment funds has been determined by using NAV as a practical expedient.

Additionally, in accordance with Accounting Standards Update ("ASU") 2009-12, the university considers several additional factors in appropriately classifying the investment funds in the fair value hierarchy. An investment is generally classified as Level II if the university has the ability to withdraw its investment with the investment fund at NAV at the measurement date. An investment is generally classified as Level III if the university does not have the ability to withdraw its investment with the investment fund at NAV, such as investments in closed-end funds, "side pockets," or funds with suspended withdrawals imposed. If the university cannot withdraw its investment with the investment funds at NAV when such investment is subject to "lock-up" or gate, or its withdrawal period does not coincide with the university's measurement date, the university considers the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment should be classified as a Level II or Level III fair value measurement.

In May 2011, the FASB issued ASU 2011-04, which amends ASC Topic 820, Fair Value Measurements and Disclosures. The amended guidance changes the wording used to describe many requirements under GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. The guidance provided in ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and is applied prospectively. The university adopted ASU 2011-04, effective July 1, 2012, and such adoption did not have a material effect on the university's financial statements.

In October 2012, the FASB issued ASU 2012-05, Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (a consensus of the FASB Emerging Issues Task Force), which amends the standards for preparing the statement of cash flows. The ASU requires a not-for-profit ("NFP") to classify cash receipts from the sale of donated financial assets consistently with cash donations received if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately to cash. The guidance provided in ASU 2012-05 is effective for interim and annual reporting periods beginning after June 15, 2013. The university adopted ASU 2012-05 effective July 1, 2013, and such adoption did not have a material effect on the university's financial statements.

Note 2

In July 2013, the university acquired USC Verdugo Hills Hospital ("USC VHH") through its subsidiary, USC Verdugo Hills Hospital, LLC ("USC VHH LLC"). The primary operation of USC VHH is a 158-bed acute care hospital located in Glendale, California. USC VHH LLC acquired certain assets and assumed certain liabilities in consideration of the USC VHH LLC discharging the outstanding indebtedness of USC VHH in an amount of approximately \$9,000,000. The university's consolidated

Notes to Consolidated Financial Statements

Note 2 (continued)

financial statements include the results of the operations of USC VHH for the 11 ½ month period ended June 30, 2014. The acquired hospital had approximately \$73,000,000 in net patient service revenue for the period ended June 30, 2014.

In December 2013, Pacific Asia Museum (“PAM”) merged with the university. The university’s consolidated financial statements include the results of the operations of PAM since the merger.

The acquisition of both entities resulted in the recognition of approximately \$100,000,000 in net assets acquired which is included in contributions on the consolidated statement of net assets for the year ended June 30, 2014. The majority of the acquisition consisted of \$25,000,000 of art and historical treasures and \$75,000,000 of property, plant and equipment. The results of operations for both acquired entities did not have a material impact on the consolidated statement of activities for the year ended June 30, 2014.

Note 3

Accounts receivable (in thousands):

U.S. Government	\$35,862
Student and other, net of allowance for doubtful accounts of \$9,000	95,320
Patient care, net of allowance for doubtful accounts of \$57,842	221,039
	\$352,221

Note 4

Investments (in thousands):

	Cost	Fair Value
Equities	\$1,525,004	\$1,871,615
Fixed income securities	1,112,057	1,116,329
Alternative investments:		
Hedge funds	538,815	756,710
Private capital	1,147,788	1,265,601
Real estate and other	290,213	235,254
Assets held by other trustees	121,804	144,724
Total	\$4,735,681	\$5,390,233

The following table summarizes the financial instruments carried at fair value as of June 30, 2014, by the ASC 820 valuation hierarchy defined above:

	Level I	Level II	Level III	Total
Investments:				
Equities	\$571,895	\$1,195,634	\$104,087	\$1,871,616
Fixed income securities	195,793	907,187	13,348	1,116,328
Hedge funds			756,710	756,710
Private capital			1,265,601	1,265,601
Real estate and other			235,254	235,254
Assets held by other trustees			144,724	144,724
Total investments	\$767,688	\$2,102,821	\$2,519,724	\$5,390,233

The following table summarizes the university’s Level III reconciliation of investments for the year ended June 30, 2014:

Balance at July 1, 2013	\$2,233,015
Net realized gains	200,711
Net unrealized gains	224,222
Transfers in*	—
Purchases	331,281
Sales and settlements	(469,505)
Balance at June 30, 2014	\$2,519,724

*Transfers were due to an increase or decrease in price transparency or the availability of dealer quotations at the end of each month.

Notes to Consolidated Financial Statements

Note 4 (continued)

The university uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category:

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Assets Held by Other Funds	Miscellaneous investments held outside USC where USC has no authority over the fund	\$144,724,000	Not Applicable	Not Applicable	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Distressed Obligation Partnerships	US and Non-US Distressed Debt Securities	\$58,075,000	\$8,766,000	Approximately 4 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Equity Funds	US and Non-US Equity Securities	\$1,203,003,000	Not Applicable	Open Ended	Minimum Monthly	None	None
Hedge Funds	US and Non-US Investments in Relative Value, Event Driven, Long/Short, and Directional Strategies	\$756,710,000	\$9,684,000	92.7% of NAV has an open ended life, 6.9% of NAV will be liquidated on 10/1/14, and 0.4% of NAV will be liquidated on an undetermined basis.	Ranges between monthly redemption with 90 days notice, quarterly redemption with up to 90 days notice, semi-annual redemption with 60 days notice, and annual redemption with up to 180 days notice.	15% of NAV is locked up for 3 months, 56% of NAV is locked up for 1 year, and 29% of NAV is locked up for more than 1 year.	None
Natural Resources Partnerships	US and Non-US Investments in Upstream, Midstream, and Downstream Natural Resources Investments	\$413,066,000	\$145,381,000	Approximately 6 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Other Funds	US and Non-US Investments in Securities Other than Equity and Fixed Income	\$1,261,000	Not Applicable	Open Ended	Monthly	None	None
Private Capital Partnerships	US and Non-US Private Equity and Venture Capital Investments	\$794,460,000	\$130,835,000	Approximately 4 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Private Real Estate Partnerships	US and Non-US Real Estate	\$206,276,000	\$80,393,000	Approximately 4 Years	Redemptions are not permitted during the life of the fund.	Not Applicable	Not Applicable
Total		<u>\$3,577,575,000</u>	<u>\$375,059,000</u>				

Notes to Consolidated Financial Statements

Note 5

Property, plant and equipment (in thousands):

Land and improvements	\$167,178
Buildings and improvements	3,212,264
Buildings under capital leases	128,854
Equipment	618,798
Library books and collections	319,136
Construction-in-progress	288,517
	4,734,747
Less: Accumulated depreciation	1,806,704
	\$2,928,043

Note 6

Bonds and notes payable (in thousands):

	Interest %	Maturity	
<i>California Educational Facilities Authority (CEFA) Revenue Bonds and Notes:</i>			
Series 2003B	5.00	2015-2016	\$2,450
Premium			126
Series 2005	4.25-5.00	2015-2029	58,705
Premium			1,905
Series 2007A	4.50-4.75	2034-2038	257,085
Premium			2,026
Series 2009A	5.00-5.25	2039-2040	217,605
Discount			(804)
Series 2009B	5.00-5.25	2039-2040	197,900
Premium			2,792
Series 2009C	5.25	2025	82,305
Premium			6,102
Series 2012A	5.00	2024	41,595
Premium			9,230
<i>University of Southern California Bonds:</i>			
Series 1998	6.26	2019	4,585
Discount			(15)
Series 2011	5.25	2112	300,000
Discount			(2,612)
<i>California Infrastructure Revenue Bonds USC (USC – Soto Street Health Sciences):</i>			
Series 2010	3.25-5.00	2015-2032	33,475
Premium			2,192
Notes Payable	4.00-5.50	2015-2017	28,368
			1,245,015
Less current portion of long-term debt			7,120
			\$1,237,895

Principal payment requirements relating to bonds and notes payable, after giving effect to refunding, for the next five fiscal years are approximately: 2015 \$7,120,000; 2016 \$8,515,000; 2017 \$26,333,000; 2018 \$1,400,000; 2019 \$6,055,000.

Interest payments for fiscal year 2014 were \$62,712,000.

On April 6, 2009, a \$100,000,000 revolving line of credit agreement was implemented with a bank. The credit agreement was amended on June

24, 2010 to increase the revolving line of credit to \$200,000,000. On April 19, 2013, a third amendment was agreed to extend the maturity date to November 30, 2016. The line of credit accrues interest based on LIBOR and contains a fee on the unused portion of the line of credit. During the years ended June 30, 2014 and 2013, the university did not draw down on the line of credit. The line of credit contains certain restrictive covenants required in the agreement.

Notes to Consolidated Financial Statements

Note 7

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, 2014 consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$251,527	\$116,528	\$368,055
Endowed scholarships	24,639	11,415	36,054
External financial aid	24,537	11,368	35,905
	\$300,703	\$139,311	\$440,014

Note 8

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 (funds functioning as endowment) have been established from restricted contributions whose restrictions have been met and unrestricted contributions which have been designated by the Board of Trustees or management for the same purpose as endowment. The university also has a beneficial interest in the net income earned from assets which are held and managed by other trustees.

Endowment and long-term investment net assets functioning as endowment are summarized as follows (in thousands):

	Endowment	Funds functioning as endowment	Total
Pooled	\$3,132,902	\$1,254,207	\$4,387,109
Non-pooled	130,102	75,803	205,905
	\$3,263,004	\$1,330,010	\$4,593,014

Pooled investments represent endowment and long-term investment net assets which have been commingled in a unitized pool (unit market value basis) for purposes of investment. The pool is comprised of cash and cash equivalents (4.73%), equities (45.70%), fixed income securities (6.57%), alternative investments (38.42%) and real estate and other investments (4.58%). Access to or liquidation from the pool is on the basis of the market value per unit on the preceding monthly valuation date. The unit market value at June 30, 2014 was \$652.22.

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 permanently restricted net assets, (a) the original value of contributions donated to the permanent endowment, (b) the original value of subsequent contributions to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the university considers various factors in making a determination to appropriate or accumulate endowment funds including: duration and preservation of the fund, economic conditions, effects of inflation or deflation, expected return on the funds and other economic resources of the university.

Endowment net asset composition by type of fund as of June 30, 2014 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$1,592,011	\$1,670,993	\$3,263,004
Board-designated endowment funds	\$1,330,010			1,330,010
	\$1,330,010	\$1,592,011	\$1,670,993	\$4,593,014

Notes to Consolidated Financial Statements

Note 8 (continued)

Changes in endowment net assets for the year ended June 30, 2014 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2013	\$1,134,363	\$1,197,326	\$1,536,666	\$3,868,355
Investment return:				
Investment income	50,521		438	50,959
Net appreciation	210,770	479,215		689,985
Total investment return	261,291	479,215	438	740,944
Contributions and transfers	24,421		133,889	158,310
Appropriation of endowment assets for expenditure	(90,065)	(84,530)		(174,595)
Endowment net assets at June 30, 2014	\$1,330,010	\$1,592,011	\$1,670,993	\$4,593,014

Endowments classified as permanently restricted net assets and temporarily restricted net assets are to be utilized for the following purposes:

Permanently restricted net assets (in thousands):

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA:

Restricted for scholarship support	\$378,932
Restricted for faculty support	449,432
Restricted for program support	842,629
Total endowment assets classified as permanently restricted net assets	\$1,670,993

Temporarily restricted net assets (in thousands):

The portion of permanent endowment funds subject to a time restriction under UPMIFA:

Restricted for scholarship support	\$361,021
Restricted for faculty support	428,189
Restricted for program support	802,801
Total endowment assets classified as temporarily restricted net assets	\$1,592,011

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 endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$1,404,000 as of June 30, 2014. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

The university has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under these policies, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The university expects its endowment funds over time, to provide an average rate of return of approximately 8.0% 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.

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

For the 2014 fiscal year, the Board of Trustees approved current distribution of 100% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provisions of the spending rule, \$25.42 was distributed to each time-weighted unit for a total spending rule allocation of \$172,162,000. Investment income amounting to \$7.07 per time-weighted unit was earned, totaling \$47,888,000, and \$124,274,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2014 represent 3.92% of the market value of the endowment pool at June 30, 2014.

Notes to Consolidated Financial Statements

Note 9

At June 30, 2014, the university has adopted the required disclosures under ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. According to this guidance, 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, 2014 consist of the following (in thousands):

	June 30, 2014		
	Financing Receivables, at Gross	Allowance for Doubtful Accounts	Net
Perkins loans	\$53,365		\$53,365
University student loans	21,406	(\$5,580)	15,826
Other student loans	15,505		15,505
Total student loans	90,276	(5,580)	84,696
Faculty and other student loans	33,574		33,574
Total	\$123,850	(5,580)	\$118,270

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 receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the Federal Government in certain non-repayment situations. In these situations the Federal portion of the loan balance is guaranteed. Included in other loans are loans related to the Federal Health Professional Student Loan Program ("HPSL") and Loans for Disadvantaged Students ("LDS").

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were 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, 2014 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	\$1,372	\$352	\$7,225	\$44,416	\$53,365
University student loans	664	86	10,006	10,650	21,406
Other student loans	987		637	13,881	15,505
Total student loans	3,023	438	17,868	68,947	90,276
Faculty and other loans				33,574	33,574
Total	\$3,023	\$438	\$17,868	\$102,521	\$123,850

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, 2014 is adequate to absorb credit losses inherent in the portfolio as of that date.

As part of the program to attract and retain exemplary faculty and senior staff, the university provides home mortgage financing assistance. Notes receivable amounting to \$33,574,000 were outstanding as of June 30, 2014 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, 2014, there were no amounts past due under the faculty and staff loan program.

Notes to Consolidated Financial Statements

Note 10

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

Unconditional promises are expected to be realized in the following periods (in thousands):

In one year or less	\$143,470
Between one year and five years	316,209
More than five years	254,362
Less: discount of \$113,537 and allowance of \$23,477	(137,014)
	<u>\$577,027</u>

Pledges receivable at June 30, 2014 have the following restrictions (in thousands):

Endowment for departmental programs and activities	\$275,783
Endowment for scholarship	12,560
Building construction	132,484
Departmental programs and activities	156,200
	<u>\$577,027</u>

Note 11

Executed contracts, grants, subcontracts and cooperative agreements for future sponsored research activity which are not reflected in the consolidated financial statements at June 30, 2014 are summarized as follows (in thousands):

Current sponsored awards	\$513,281
Executed grants and contracts for future periods	551,976
	<u>\$1,065,257</u>

Note 12

At June 30, 2014, the university had remaining commitments of approximately \$375,059,000 with alternative investment managers and/or limited partnerships.

Contractual commitments for educational plant amounted to approximately \$94,969,000 at June 30, 2014. It is expected that the resources to satisfy these commitments will be provided from certain unexpended plant net assets, anticipated contributions and/or debt proceeds.

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

Note 13

Retirement benefits for eligible university employees are provided through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund, The Vanguard Group, AIG SunAmerica, Fidelity Investments and Prudential Financial. Under these defined contribution plans, the university and plan participants make contributions to purchase individual, fixed or variable annuities equivalent to retirement benefits earned or to participate in a variety of mutual funds or commingled funds. The university makes a 5% non-elective contribution to all eligible employees and also matches dollar for dollar the first 5% of the employees' contributions. Newly hired employees on or after January 1, 2012, will have the university non-elective contribution subject to a four year vesting schedule. Benefits commence upon termination or retirement and pre-retirement survivor death benefits are also provided. Charges to education and general activities expenses for the university's share of costs were approximately \$131,072,000 during the year ended June 30, 2014.

Retirement benefits for hospital employees covered under a collective bargaining agreement with the National Union of Healthcare Workers (NUHW) and employees of USC Verdugo Hills Hospital are provided by a defined contribution 401(k) plan through Fidelity investments. Until August 2011, the hospital employees covered under a collective bargaining agreement with CNA were also covered under this 401(k) plan. Under the defined contribution plan, participants make contributions to purchase a variety of mutual funds. The university makes its contribution following the end of the calendar year and matches 100% of the participants' contributions up to 4% of eligible earnings providing the participant was employed on the last day of the calendar year. In addition, the university makes a 1% retiree medical benefit contribution to all NUHW participants who were both employed on the last day of the calendar year and worked 1,500 hours in that calendar year. Effective July 2013, all employees of the USC Verdugo Hills Hospital are eligible to participate in the 401(k) plan. They will receive a discretionary employer match of up to 4% of eligible earnings. The university contribution is subject to a five year vesting schedule although previously credited years prior to the Tenet and Verdugo acquisitions have been carried over. Benefits commence at age 59½, termination of employment, or retirement and pre-retirement survivor death benefits are also provided. Charges to education and general activities expenses for the university's share of costs were approximately \$1,290,000 during the year ended June 30, 2014.

Retirement benefits for non-exempt university employees are provided through a noncontributory defined benefit pension plan. The following table sets forth the plan's funded status at June 30, 2014 (in thousands):

Notes to Consolidated Financial Statements

Note 13 (continued)

Obligations and Plan Assets

Change in Projected Benefit Obligation

Benefit obligation at end of prior year	\$212,231
Interest cost	10,206
Actuarial gain	28,729
Benefits paid	(7,331)
Benefit obligation at end of year	\$243,835

Change in Plan Assets

Fair value of plan assets at end of prior year	\$152,264
Actual return on plan assets	32,512
Benefits paid	(7,331)
Fair value of plan assets at end of year	\$177,445

Reconciliation of Funded Status

Accumulated benefit obligation at end of year	\$243,835
Projected benefit obligation at end of year	(\$243,835)
Fair value of plan assets at end of year	177,445
Funded status	(\$66,390)

Components of Net Periodic Benefit Cost

Interest cost	\$10,206
Expected return on plan assets	(10,384)
Amortization of net loss	5,822
Total benefit cost	\$5,644

Amounts recognized in the Statement of Financial Position

Noncurrent liabilities	(\$66,390)
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Amounts not yet recognized as components of Net Periodic Benefit Cost

Net loss	\$87,152
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Changes in the net reduction to Unrestricted Net Assets

Net loss	\$6,601
Amortization of net loss	(5,822)
Total	\$ 779

The estimated net loss/(gain) and prior service cost for the USC Support Staff Retirement Plan ("Plan") that will be recognized as components of net periodic benefit cost over the next fiscal year are \$5,753,000 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.

No special accounting for curtailments, settlements or termination benefits was required during the year ended June 30, 2014.

Assumptions

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

Discount rate	4.90%
Expected return on plan assets	7.00%
Rate of compensation increase	N/A

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

Discount rate	4.40%
Rate of compensation increase	N/A

Plan Assets

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

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

Fair Value

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

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

Notes to Consolidated Financial Statements

Note 13 (continued)

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	Total
Collective Trust Funds:				
Short-term investment fund		\$44		\$44
Equity securities		129,525		129,525
Fixed income securities		47,876		47,876
Total		\$177,445		\$177,445

Allocation of Assets

The year-end asset allocation, which approximates the weighted-average allocation for the Plan assets as of June 30, 2014 and in comparison to target percentages for each asset category, is as follows:

Asset Category	June 30, 2014	Target at June 30, 2014
Short-term investment fund	0.0%	0%
Equity securities	73.0%	75.0%
Fixed income securities	27.0%	25.0%
Total	100.0%	100.0%

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

Contributions

No contribution to the Plan was required during the year ended June 30, 2014. The university may make discretionary contributions to the Plan during the next fiscal year. This will be reassessed during the year.

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,

2015	\$8,668
2016	\$9,291
2017	\$9,967
2018	\$10,646
2019	\$11,153
2020-2024	\$62,636

Notes to Consolidated Financial Statements

Note 14

The university is the lessee of various equipment and space under noncancelable operating and capital leases. Operating lease rental expense for the year ended June 30, 2014 was approximately \$28,295,000. Space leases contained customary escalation clauses, which are included in annual aggregate minimum rentals.

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

Future minimum rental payments:	Operating	Capital
2015	\$23,273	\$5,026
2016	21,484	5,233
2017	20,357	5,461
2018	19,608	5,560
2019	19,469	5,660
Thereafter	46,803	750,913
	150,994	777,853
Less: Interest on capital leases		(652,111)
Total	\$150,994	\$125,742

The university entered into a lease agreement with the Los Angeles Memorial Coliseum Commission (LAMCC) to assume the operations of the Los Angeles Memorial Coliseum and Los Angeles Memorial Sports Arena. The lease agreement with the LAMCC expires in 2033, or in 2054, if all options are exercised, at which time a second lease agreement with the California Science Center (CSC), an institution of the State of California, commences. The lease with the California Science Center expires in 2111, assuming all options are exercised. Under the terms of both lease agreements the university is required to make significant capital improvements to the property. The present value of the future minimum lease payments is \$67,579,000 as of June 30, 2014.

Note 15

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

Functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fund Raising Activities	Year Ended June 30, 2014
Compensation	\$1,420,644	\$274,715	\$27,703	\$1,723,062
Fringe benefits	375,529	87,381	9,167	472,077
Operating expenses	758,118	311,438	13,706	1,083,262
Cost of goods sold	43,190	55,729		98,919
Travel	47,126	9,796	866	57,788
Allocations:				
Depreciation	131,494	49,300	159	180,953
Interest	17,982	48,688		66,670
Plant operations and maintenance	147,977	(148,738)	761	
	\$2,942,060	\$688,309	\$52,362	\$3,682,731

Notes to Consolidated Financial Statements

Note 16

The university is contingently liable as guarantor on certain obligations relating to equipment loans, student and parent loans, and various campus organizations. The university receives funding or reimbursement from governmental agencies for various activities, which are subject to audit. In addition, certain litigation has been filed against the university and in the opinion of university management, after consultation with legal counsel, the liability, if any, for the aforementioned matters will not have a material effect on the university's financial position.

Note 17

The estimated fair value of the university's bonds, notes and mortgages payable was \$1,385,839,000 at June 30, 2014. This fair value was estimated based upon the discounted amount of future cash outflows using the rates offered to the university for debt of the same remaining maturities.

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.

Note 18

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 19

The university has performed an evaluation of subsequent events through October 9, 2014, which is the date the financial statements were issued.

2015 Summary of Budgeted Operating Revenues & Expenses

2014-15 Budget / in thousands

	Undesignated Budget					
	Education and General			Health Care Services		
	2013-14 Budget	2014-15 Budget	Percent Change	2013-14 Budget	2014-15 Budget	Percent Change
Revenues						
Tuition and fees	\$1,535,322	\$1,649,961	7.5%			
Less student aid	(370,128)	(384,315)	3.8%			
Net tuition and fees	1,165,194	1,265,646	8.6%			
Endowment income	67,425	73,320	8.7%			
Investment income	3,095	615	(80.1%)	\$40	\$40	0.0%
Gifts	29,939	32,047	7.0%			
Contracts and grants – direct						
Recovery of indirect costs:						
Contracts and grants	122,916	123,822	0.7%			
Endowments/Gifts	14,695	15,806	7.6%			
Auxiliary enterprises	302,862	313,759	3.6%			
Sales and service and other sources	132,958	137,343	3.3%	1,239,923	1,297,374	4.6%
Total Revenues	\$1,839,084	\$1,962,358	6.7%	\$1,239,963	\$1,297,414	4.6%
Expenses						
Compensation:						
Faculty salaries	\$358,758	\$386,087	7.6%	\$190,037	\$212,438	11.8%
Other salaries and wages	538,360	569,659	5.8%	435,068	421,537	(3.1%)
Employee benefits	258,483	275,738	6.7%	155,162	169,258	9.1%
Total Compensation	1,155,601	1,231,484	6.6%	780,267	803,233	2.9%
Current expense	388,520	403,882	4.0%	358,854	373,567	4.1%
Capital financing	98,431	99,181	0.8%	21,340	20,721	(2.9%)
Professional services	52,207	56,724	8.7%	39,076	55,998	43.3%
Equipment/Library	27,862	48,555	74.3%	4,655	5,147	10.6%
Utilities/Telephone	44,638	47,712	6.9%	7,399	8,415	13.7%
Off-campus facilities	28,680	30,242	5.4%	3,962	3,084	(22.2%)
Travel	26,569	29,218	10.0%	2,465	3,803	54.3%
Rentals and leases	16,576	15,360	(7.3%)	21,945	23,446	6.8%
Total Expenses	\$1,839,084	\$1,962,358	6.7%	\$1,239,963	\$1,297,414	4.6%

Designated Budget			Total Budget				
	2013-14 Budget	2014-15 Budget	Percent Change		2013-14 Budget	2014-15 Budget	Percent Change
					\$1,535,322	\$1,649,961	7.5%
	(\$80,579)	(\$80,820)	0.3%		(450,707)	(465,135)	3.2%
	(80,579)	(80,820)	0.3%		1,084,615	1,184,826	9.2%
	62,335	60,166	(3.5%)		129,760	133,486	2.9%
					3,135	655	(79.1%)
	226,642	234,717	3.6%		256,581	266,764	4.0%
	406,214	395,735	(2.6%)		406,214	395,735	(2.6%)
					122,916	123,822	0.7%
					14,695	15,806	7.6%
					302,862	313,759	3.6%
					1,372,881	1,434,717	4.5%
	\$614,612	\$609,798	(0.8%)		\$3,693,659	\$3,869,570	4.8%
	\$86,049	\$86,714	0.8%		\$634,844	\$685,239	7.9%
	169,582	175,135	3.3%		1,143,010	1,166,331	2.0%
	70,794	69,422	(1.9%)		484,439	514,418	6.2%
	326,425	331,271	1.5%		2,262,293	2,365,988	4.6%
	205,426	182,481	(11.2%)		952,800	959,930	0.7%
	932	1,094	17.4%		120,703	120,996	0.2%
	23,540	28,767	22.2%		114,823	141,489	23.2%
	13,110	16,457	25.5%		45,627	70,159	53.8%
					52,037	56,127	7.9%
	18,471	18,784	1.7%		51,113	52,110	2.0%
	26,445	29,179	10.3%		55,479	62,200	12.1%
	263	1,765	+100.0%		38,784	40,571	4.6%
	\$614,612	\$609,798	(0.8%)		\$3,693,659	\$3,869,570	4.8%

2015 Colleges, Schools, Centers & Institutes

Individual Revenue Center Summary / 2014-15 Budget / in thousands

	Annenberg School for Communication and Journalism		School of Architecture		School of Cinematic Arts		Continuing Education and Summer Programs	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	\$58,584	\$14,946	\$19,004	\$1,490	\$52,143	\$10,802	\$2,887	
Center	73,560	14,946	24,488	1,490	68,020	10,802	2,969	
UG Student Aid Fund	(12,534)		(4,412)		(13,247)			
Facilities Improvement Fund	(2,442)		(1,072)		(2,630)		(82)	
Indirect	(3,337)		(2,231)		(4,802)			
Participation	(5,557)		(2,294)		(5,928)			
Academic Initiatives					65			
Provost's Initiatives	75		32		197			
Graduate Programs	2,145		31		864			
Total Revenues	\$55,247	\$14,946	\$16,773	\$1,490	\$47,341	\$10,802	\$2,887	

Expenses								
Direct	\$43,218	\$14,946	\$11,892	\$1,490	\$33,338	\$10,802	\$2,887	
Indirect	12,029		4,881		14,003			
Allocated Central Costs	10,817		4,141		13,239			
Facilities Based	1,212		740		764			
Total Expenses	\$55,247	\$14,946	\$16,773	\$1,490	\$47,341	\$10,802	\$2,887	

	Davis School of Gerontology		Dornsife College of Letters, Arts and Sciences		School of Dramatic Arts		Gould School of Law	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	\$11,226	\$8,226	\$299,611	\$95,496	\$11,763	\$1,167	\$42,800	\$3,339
Center	12,466	8,226	438,652	95,496	17,102	1,167	45,174	3,339
UG Student Aid Fund	(947)		(123,073)		(4,686)		(434)	
Facilities Improvement Fund	(293)		(15,968)		(653)		(1,940)	
Indirect	1,889		(7,146)		(757)		255	
Participation	(871)		(39,318)		(1,524)		(3,812)	
Academic Initiatives	2,000				500		2,500	
Provost's Initiatives			1,336		42		1,567	
Graduate Programs	760		30,836		225			
Total Revenues	\$13,115	\$8,226	\$292,465	\$95,496	\$11,006	\$1,167	\$43,055	\$3,339

Expenses								
Direct	\$8,846	\$8,226	\$188,863	\$95,496	\$7,672	\$1,167	\$31,526	\$3,339
Indirect	4,269		103,602		3,334		11,529	
Allocated Central Costs	3,588		89,303		2,585		10,198	
Facilities Based	681		14,299		749		1,331	
Total Expenses	\$13,115	\$8,226	\$292,465	\$95,496	\$11,006	\$1,167	\$43,055	\$3,339

	Graduate Programs		Institute for Creative Technologies		International Academy		lovine and Young Academy	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	\$44,066		\$5,285	\$29,948	\$10,044		\$613	\$862
Center	44,066		5,285	29,948	10,190		926	862
UG Student Aid Fund					(52)		(280)	
Facilities Improvement Fund					(94)		(33)	
Indirect	(48,894)		(454)		(876)		(80)	
Participation			(454)		(876)		(80)	
Academic Initiatives	22,700							
Provost's Initiatives								
Graduate Programs	(71,594)							
Total Revenues	(\$4,828)		\$4,831	\$29,948	\$9,168		\$533	\$862

Expenses								
Direct	(\$4,828)		\$3,566	\$29,948	\$9,168		\$533	\$862
Indirect			1,265					
Allocated Central Costs			1,265					
Facilities Based								
Total Expenses	(\$4,828)		\$4,831	\$29,948	\$9,168		\$533	\$862

	Glorya Kaufman School of Dance		Marshall School of Business		Sol Price School of Public Policy		Roski School of Art and Design	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	\$2,480	\$25	\$175,765	\$21,089	\$45,845	\$14,956	\$10,521	\$427
Center	3,477	25	221,704	21,089	52,117	14,956	15,181	427
UG Student Aid Fund	(887)		(37,185)		(4,191)		(4,127)	
Facilities Improvement Fund	(110)		(8,754)		(2,081)		(533)	
Indirect	(169)		(17,212)		(2,779)		(768)	
Participation	(259)		(19,062)		(4,419)		(1,263)	
Academic Initiatives	80				111		200	
Provost's Initiatives	10				156		70	
Graduate Programs			1,850		1,373		225	
Total Revenues	\$2,311	\$25	\$158,553	\$21,089	\$43,066	\$14,956	\$9,753	\$427

Expenses								
Direct	\$1,842	\$25	\$114,882	\$21,089	\$32,268	\$14,956	\$7,210	\$427
Indirect	469		43,671		10,798		2,543	
Allocated Central Costs	434		40,883		9,997		2,195	
Facilities Based	35		2,788		801		348	
Total Expenses	\$2,311	\$25	\$158,553	\$21,089	\$43,066	\$14,956	\$9,753	\$427

2015 Colleges, Schools, Centers & Institutes

Individual Revenue Center Summary / 2014-15 Budget / in thousands

	Rossier School of Education		School of Social Work		Thornton School of Music	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues						
Direct	\$51,694	\$9,851	\$122,876	\$6,714	\$28,315	\$2,119
Center	53,539	9,851	126,830	6,714	38,519	2,119
UG Student Aid Fund	(86)		(83)		(8,751)	
Facilities Improvement Fund	(1,759)		(3,871)		(1,453)	
Indirect	(2,073)		(6,864)		825	
Participation	(3,570)		(7,401)		(3,381)	
Academic Initiatives					3,900	
Provost's Initiatives			181		199	
Graduate Programs	1,497		356		107	
Total Revenues	\$49,621	\$9,851	\$116,012	\$6,714	\$29,140	\$2,119

Expenses						
Direct	\$40,506	\$9,851	\$108,175	\$6,714	\$19,935	\$2,119
Indirect	9,115		7,837		9,205	
Allocated Central Costs	8,437		7,442		8,074	
Facilities Based	678		395		1,131	
Total Expenses	\$49,621	\$9,851	\$116,012	\$6,714	\$29,140	\$2,119

	Viterbi School of Engineering Academic Programs		Information Sciences Institute		Total Colleges, Schools, Centers and Institutes	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues						
Direct	\$142,201	\$64,527	\$7,850	\$72,077	\$1,145,573	\$358,061
Center	169,288	64,527	7,850	72,077	1,431,403	358,061
UG Student Aid Fund	(20,307)				(235,282)	
Facilities Improvement Fund	(6,780)				(50,548)	
Indirect	14,712				(80,761)	
Participation	(15,727)		(688)		(116,484)	
Academic Initiatives	9,500		688		42,244	
Provost's Initiatives					3,865	
Graduate Programs	20,939				(10,386)	
Total Revenues	\$156,913	\$64,527	\$7,850	\$72,077	\$1,064,812	\$358,061

Expenses						
Direct	\$105,888	\$64,527	\$4,700	\$72,077	\$772,087	\$358,061
Indirect	51,025		3,150		292,725	
Allocated Central Costs	43,148		3,150		258,896	
Facilities Based	7,877				33,829	
Total Expenses	\$156,913	\$64,527	\$7,850	\$72,077	\$1,064,812	\$358,061

Definitions:

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

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

The Undergraduate Student Aid is centrally administered and charged to academic centers on a pre-determined percent of undergraduate tuition. For fiscal year 2014-2015, the rate is 30.0%.

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

Participation is a tax on gross tuition revenue, recovery of indirect costs, sales and service and other sources. For fiscal year 2014-2015, the rate is 8.6%.

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

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

2015 Health Sciences Schools & Health Care Services

Individual Revenue Center Summary / 2014-15 Budget / in thousands

	Keck School of Medicine		Herman Ostrow School of Dentistry		School of Pharmacy		Total Health Sciences Schools	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	\$181,005	\$174,612	\$105,919	\$11,788	\$53,045	\$14,992	\$339,969	\$201,392
Center	187,206	174,612	112,963	11,788	54,835	14,992	355,004	201,392
UG Student Aid Fund	(2,932)		(2,824)				(5,756)	
Facilities Improvement Fund	(3,269)		(4,220)		(1,790)		(9,279)	
Indirect	16,223		(7,717)		(1,746)		6,760	
Participation	(10,757)		(9,216)		(3,708)		(23,681)	
Academic Initiatives	20,000						20,000	
Provost's Initiatives	55						55	
Graduate Programs	6,925		1,499		1,962		10,386	
Total Revenues	\$197,228	\$174,612	\$98,202	\$11,788	\$51,299	\$14,992	\$346,729	\$201,392

Expenses								
Direct	\$134,706	\$174,612	\$72,760	\$11,788	\$39,215	\$14,992	\$246,681	\$201,392
Indirect	62,522		25,442		12,084		100,048	
Allocated Central Costs	52,261		20,901		10,496		83,658	
Facilities Based	10,261		4,541		1,588		16,390	
Total Expenses	\$197,228	\$174,612	\$98,202	\$11,788	\$51,299	\$14,992	\$346,729	\$201,392

	Keck Medical Center		Total Health Care Services	
	Undesignated	Designated	Undesignated	Designated
Revenues				
Direct	\$1,297,414		\$1,297,414	
Center	1,297,414		1,297,414	
UG Student Aid Fund				
Facilities Improvement Fund				
Indirect				
Participation				
Academic Initiatives				
Provost's Initiatives				
Graduate Programs				
Total Revenues	\$1,297,414		\$1,297,414	
Expenses				
Direct	\$1,291,434		\$1,291,434	
Indirect	5,980		5,980	
Allocated Central Costs	4,323		4,323	
Facilities Based	1,657		1,657	
Total Expenses	\$1,297,414		\$1,297,414	

Definitions (continued):

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

Indirect Expenses are the sum of Allocated Central Costs and Facilities Based Indirects and equal the net budgets of administrative centers (see Individual Administrative Centers 2014-2015 Budget by Presidential and Senior Vice Presidential Responsibility Area).

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

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

2015 Auxiliaries & Athletics

Individual Revenue Center Summary / 2014-15 Budget / in thousands

	Animal Resources		Bookstores		Coliseum		Hospitality	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	\$65		\$40,273		\$8,092		\$46,508	
Center	65		40,273		8,092		46,508	
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect								
Participation								
Academic Initiatives								
Provost's Initiatives								
Graduate Programs								
Total Revenues	\$65		\$40,273		\$8,092		\$46,508	

Expenses								
Direct	(\$1,815)		\$36,315		\$8,092		\$42,303	
Indirect	1,880		3,958				4,205	
Allocated Central Costs	843		3,199				2,248	
Facilities Based	1,037		759				1,957	
Total Expenses	\$65		\$40,273		\$8,092		\$46,508	

	Housing		Intercollegiate Athletics		Radisson Hotel		Senior Care	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	\$60,312		\$75,521	\$6,000	\$12,493		\$2,472	
Center	60,312		75,521	6,000	12,493		2,472	
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect								
Participation								
Academic Initiatives								
Provost's Initiatives								
Graduate Programs								
Total Revenues	\$60,312		\$75,521	\$6,000	\$12,493		\$2,472	

Expenses								
Direct	\$45,727		\$65,263	\$6,000	\$12,159		\$2,472	
Indirect	14,585		10,258		334			
Allocated Central Costs	10,042		8,994		325			
Facilities Based	4,543		1,264		9			
Total Expenses	\$60,312		\$75,521	\$6,000	\$12,493		\$2,472	

	Student Health and Counseling Services		Transportation		University Club		USC Radio	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues								
Direct	\$62,166		\$20,506		\$1,786		\$8,748	\$1,393
Center	62,166		20,506		1,786		8,748	1,393
UG Student Aid Fund								
Facilities Improvement Fund								
Indirect					200			
Participation								
Academic Initiatives								
Provost's Initiatives					200			
Graduate Programs								
Total Revenues	\$62,166		\$20,506		\$1,986		\$8,748	\$1,393

Expenses								
Direct	\$59,767		\$11,715		\$1,672		\$7,927	\$1,393
Indirect	2,399		8,791		314		821	
Allocated Central Costs	2,399		7,127		314		821	
Facilities Based			1,664					
Total Expenses	\$62,166		\$20,506		\$1,986		\$8,748	\$1,393

	Total Auxiliaries and Athletics	
	Undesignated	Designated
Revenues		
Direct	\$338,942	\$7,393
Center	338,942	7,393
UG Student Aid Fund		
Facilities Improvement Fund		
Indirect	200	
Participation		
Academic Initiatives		
Provost's Initiatives	200	
Graduate Programs		
Total Revenues	\$339,142	\$7,393

Expenses		
Direct	\$291,597	\$7,393
Indirect	47,545	
Allocated Central Costs	36,312	
Facilities Based	11,233	
Total Expenses	\$339,142	\$7,393

2015 Classification by Center

2014-15 Budget / in thousands

	Colleges, Schools, Centers and Institutes		Health Sciences Schools		Health Care Services	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues						
Direct	\$1,145,573	\$358,061	\$339,969	\$201,392	\$1,297,414	
Center	1,431,403	358,061	355,004	201,392	1,297,414	
UG Student Aid Fund	(235,282)		(5,756)			
Facilities Improvement Fund	(50,548)		(9,279)			
Indirect	(80,761)		6,760			
Participation	(116,484)		(23,681)			
Academic Initiatives	42,244		20,000			
Provost's Initiatives	3,865		55			
Graduate Programs	(10,386)		10,386			
Total Revenues	\$1,064,812	\$358,061	\$346,729	\$201,392	\$1,297,414	

Expenses						
Direct	\$772,087	\$358,061	\$246,681	\$201,392	\$1,291,434	
Indirect	292,725		100,048		5,980	
Allocated Central Costs	258,896		83,658		4,323	
Facilities Based	33,829		16,390		1,657	
Total Expenses	\$1,064,812	\$358,061	\$346,729	\$201,392	\$1,297,414	

	Auxiliaries and Athletics		Total Revenue Centers		Administrative Centers	
	Undesignated	Designated	Undesignated	Designated	Undesignated	Designated
Revenues						
Direct	\$338,942	\$7,393	\$3,121,898	\$566,846	\$123,903	\$42,952
Center	338,942	7,393	3,422,763	566,846	(176,962)	42,952
UG Student Aid Fund			(241,038)		241,038	
Facilities Improvement Fund			(59,827)		59,827	
Indirect	200		(73,801)		118	
Participation			(140,165)			
Academic Initiatives			62,244			
Provost's Initiatives	200		4,120		118	
Graduate Programs						
Total Revenues	\$339,142	\$7,393	\$3,048,097	\$566,846	\$124,021	\$42,952

Expenses						
Direct	\$291,597	\$7,393	\$2,601,799	\$566,846	\$570,319	\$42,952
Indirect	47,545		446,298		(446,298)	
Allocated Central Costs	36,312		383,189		(383,189)	
Facilities Based	11,233		63,109		(63,109)	
Total Expenses	\$339,142	\$7,393	\$3,048,097	\$566,846	\$124,021	\$42,952

	Provost Funding		Total University		Grand Total
	Undesignated	Designated	Undesignated	Designated	
Revenues					
Direct	\$13,971		\$3,259,772	\$609,798	\$3,869,570
Center	13,971		3,259,772	609,798	3,869,570
UG Student Aid Fund					
Facilities Improvement Fund					
Indirect	73,683				
Participation	140,165				
Academic Initiatives	(62,244)				
Provost's Initiatives	(4,238)				
Graduate Programs					
Total Revenues	\$87,654		\$3,259,772	\$609,798	\$3,869,570
Expenses					
Direct	\$87,654		\$3,259,772	\$609,798	\$3,869,570
Indirect					
Allocated Central Costs					
Facilities Based					
Total Expenses	\$87,654		\$3,259,772	\$609,798	\$3,869,570

2015 Individual Administrative Centers by Presidential & Senior Vice Presidential Responsibility Area

2014-15 Budget / in thousands

	Net Operating Budget	Employee Benefits Budget
President		
President's Office	\$4,101	—
Provost and Senior Vice President for Academic Affairs		
Academic Affairs	\$7,657	
Academic Senate	170	
Emeriti Center	592	
Enrollment Services	18,789	
Faculty Affairs	1,338	\$347
Faculty Sabbaticals		11,899
Global Initiatives	2,652	
Information Technology Services	57,587	
Office of Research	9,229	
Provost's Office	7,782	
Student Affairs	9,315	35
University Art Galleries	648	
University Libraries	40,511	
USC Stevens Center for Innovation	4,055	
Total	\$160,325	\$12,281

Senior Vice President, Administration

Audit Services	\$1,826	
Career and Protective Services	35,520	\$18,492
Center for Work and Family Life		957
Compliance	4,474	
General Counsel	16,720	
Human Resources	3,882	7,932
Senior Vice President's Office	5,260	
Tram, Campus Cruiser and Rideshare	5,403	1,458
University Real Estate	8,280	
Total	\$81,365	\$28,839

	Net Operating Budget	Employee Benefits Budget
Senior Vice President, Finance & CFO		
Budget and Treasury	\$4,664	\$1,932
Campus Development	3,200	
Comptroller	7,823	494,265
Corporate Expense	36,019	
Facilities Management Services	80,028	
Financial and Business Services	16,780	
Major Maintenance and Renovation	2,057	
Senior Vice President's Office	2,646	
Total	\$153,217	\$496,197

Senior Vice President, University Advancement

Senior Vice President's Office	\$32,579	
USC Alumni Association	2,010	
Total	\$34,589	—

Senior Vice President, University Relations

University Relations	\$12,701	—
Employee Benefit Recoveries		(\$537,317)
Total Administrative Centers	\$446,298	—

Undergraduate Student Aid Fund	\$241,038	
Facilities Improvement Fund	59,827	
Grand Total	\$747,163	—

Role and Mission of the University of Southern California

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

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

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

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

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

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

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

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