University of Pittsburgh

Financial Report

Fiscal Year 2019

KPMG LLP
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Pittsburgh, PA 15219-2598

Independent Auditors' Report

The Board of Trustees of the
University of Pittsburgh – Of the Commonwealth
System of Higher Education:

We have audited the accompanying consolidated financial statements of the University of Pittsburgh – Of the Commonwealth System of Higher Education, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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, the auditor considers internal control relevant to the entity'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 entity'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 Pittsburgh – Of the Commonwealth System of Higher Education as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2019, the University of Pittsburgh – Of the Commonwealth System of Higher Education adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*; ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended; ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*; and ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.

KPMG LLP

Pittsburgh, Pennsylvania
October 16, 2019

UNIVERSITY OF PITTSBURGH
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2019 AND 2018
(in thousands of dollars)

	2019	2018
ASSETS:		
Cash and cash equivalents *(Notes 1, 2 and 6)*	$ 10,521	$ 45,809
Operating investments *(Notes 1, 2, 5 and 6)*	469,630	382,935
Inventories and deferred charges	35,656	23,556
Accounts and notes receivable, net *(Notes 2 and 3)*	266,984	229,576
Contributions receivable, net *(Notes 1 and 4)*	55,663	60,161
Student loans receivable, net	36,811	40,611
Foundation assets *(Note 1)*	30,903	29,697
Endowment investments *(Notes 5 and 6)*	4,342,563	4,226,330
Endowed funds held by third parties *(Note 6)*	23,677	23,591
Property, plant, and equipment, net *(Note 7)*	1,929,919	1,834,129
TOTAL ASSETS	$ 7,202,327	$ 6,896,395
LIABILITIES:		
Accounts payable and accrued expenses	$ 106,235	$ 99,001
Accrued payroll and related liabilities	81,987	80,804
Deferred student and other revenue *(Note 1)*	48,101	52,955
Advanced receipt of grant funds *(Note 1)*	73,708	68,321
Refundable U.S. government student loans	32,978	34,373
Other liabilities *(Notes 6 and 9)*	138,004	90,375
Pension and postretirement obligations *(Note 10)*	622,845	550,588
Conditional asset remediation obligation *(Note 7)*	30,022	29,764
Bonds and notes payable *(Note 8)*	899,687	833,420
TOTAL LIABILITIES	2,033,567	1,839,601
NET ASSETS:		
Without donor restrictions *(Notes 1 and 11)*		
Endowment designated for financial aid	1,704,446	1,683,220
Other designated endowments	947,923	934,324
Net invested in plant and other	763,467	729,390
Total without donor restrictions	3,415,836	3,346,934
With donor restrictions *(Notes 1 and 11)*		
Endowments	1,663,466	1,607,760
Other	89,458	102,100
Total with donor restrictions	1,752,924	1,709,860
TOTAL NET ASSETS	5,168,760	5,056,794
TOTAL LIABILITIES AND NET ASSETS	$ 7,202,327	$ 6,896,395

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
COMPARED TO SUMMARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018
(in thousands of dollars)

	2019			
OPERATING REVENUES:	Without Donor Restrictions	With Donor Restrictions	Total	2018
Tuition and fees (net of tuition discounts of $206.0 million and $192.7 million)	$ 639,561	$ -	$ 639,561	$ 628,481
Commonwealth appropriation	174,675	-	174,675	169,680
Commonwealth construction grants	-	8,781	8,781	21,582
Research grants and contracts	859,690	-	859,690	808,082
Contributions for operations	33,216	17,831	51,047	77,638
Endowment distributions and investment income	157,031	-	157,031	143,535
Sales and services, educational and other	292,912	-	292,912	256,877
Sales and services, auxiliary	151,020	-	151,020	151,688
Rental revenue	18,253	-	18,253	18,444
Net assets released from restrictions	42,037	(42,037)	-	-
Total operating revenues	2,368,395	(15,425)	2,352,970	2,276,007
OPERATING EXPENSES:				
Salaries and wages	1,055,046	-	1,055,046	1,005,074
Fringe benefits	300,091	-	300,091	286,230
Total compensation	1,355,137	-	1,355,137	1,291,304
Supplies	122,669	-	122,669	112,032
Business and professional	374,303	-	374,303	350,407
Facilities	103,357	-	103,357	95,105
Depreciation	184,835	-	184,835	177,210
Interest	30,137	-	30,137	30,171
Rent	52,507	-	52,507	50,083
Other	42,301	-	42,301	46,912
Total operating expenses *(Note 13)*	2,265,246	-	2,265,246	2,153,224
Change in net assets from operating activities	103,149	(15,425)	87,724	122,783
OTHER ACTIVITIES:				
Investment gains, net of endowment distributions for operations	44,111	27,464	71,575	206,836
Contributions for endowment	-	31,025	31,025	24,297
Change in fair value of interest rate swaps *(Note 9)*	(20,765)	-	(20,765)	20,526
Deferred tax benefit *(Note 1)*	11,355	-	11,355	-
Other components of net periodic benefit cost *(Note 10)*	(22,241)	-	(22,241)	(22,437)
Nonperiodic changes in benefit plans *(Note 10)*	(46,707)	-	(46,707)	29,719
Total other activities	(34,247)	58,489	24,242	258,941
CHANGE IN NET ASSETS	68,902	43,064	111,966	381,724
NET ASSETS, BEGINNING OF YEAR	3,346,934	1,709,860	5,056,794	4,675,070
NET ASSETS, END OF YEAR	$ 3,415,836	$ 1,752,924	$ 5,168,760	$ 5,056,794

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(in thousands of dollars)

	2018		
OPERATING REVENUES:	Without Donor Restrictions	With Donor Restrictions	Total
Tuition and fees (net of tuition discounts of $192.7 million)	$ 628,481	$ -	$ 628,481
Commonwealth appropriation	169,680	-	169,680
Commonwealth construction grants	-	21,582	21,582
Research grants and contracts	808,082	-	808,082
Contributions for operations	31,627	46,011	77,638
Endowment distributions and investment income	143,535	-	143,535
Sales and services, educational and other	256,877	-	256,877
Sales and services, auxiliary	151,688	-	151,688
Rental revenue	18,444	-	18,444
Net assets released from restrictions	29,894	(29,894)	-
Total operating revenues	2,238,308	37,699	2,276,007
OPERATING EXPENSES:			
Salaries and wages	1,005,074	-	1,005,074
Fringe benefits	286,230	-	286,230
Total compensation	1,291,304	-	1,291,304
Supplies	112,032	-	112,032
Business and professional	350,407	-	350,407
Facilities	95,105	-	95,105
Depreciation	177,210	-	177,210
Interest	30,171	-	30,171
Rent	50,083	-	50,083
Other	46,912	-	46,912
Total operating expenses ***(Note 13)***	2,153,224	-	2,153,224
Change in net assets from operating activities	85,084	37,699	122,783
OTHER ACTIVITIES:			
Investment gains, net of endowment distributions for operations	140,366	66,470	206,836
Contributions for endowment	-	24,297	24,297
Change in fair value of interest rate swaps *(Note 9)*	20,526	-	20,526
Deferred tax benefit *(Note 1)*	-	-	-
Other components of net periodic benefit cost *(Note 10)*	(22,437)	-	(22,437)
Nonperiodic changes in benefit plans *(Note 10)*	29,719	-	29,719
Total other activities	168,174	90,767	258,941
CHANGE IN NET ASSETS	253,258	128,466	381,724
NET ASSETS, BEGINNING OF YEAR	3,093,676	1,581,394	4,675,070
NET ASSETS, END OF YEAR	$ 3,346,934	$ 1,709,860	$ 5,056,794

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(in thousands of dollars)

	2019	2018
CASH AND CASH EQUIVALENTS:		
End of year	$ 10,521	$ 45,809
Beginning of year	45,809	22,494
CHANGE IN CASH AND CASH EQUIVALENTS	$ (35,288)	$ 23,315
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 111,966	$ 381,724
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	184,835	177,210
Deferred tax benefit	(11,355)	-
Other components of net periodic benefit cost	22,241	22,437
Nonperiodic changes in benefit plans	46,707	(29,719)
Amortization of debt issuance costs and bond premiums, net	279	66
Loss on disposal of plant assets	2,301	1,719
Investment gains	(200,369)	(321,918)
Change in fair value of interest rate swaps	20,765	(20,526)
Contributions restricted for long-term investment	(41,341)	(47,453)
Changes in operating assets and liabilities:		
Accounts, notes, contributions, and loans receivable, net	(35,414)	(67,891)
Other assets	(745)	(2,632)
Accounts payable and accrued expenses	7,720	(355)
Pension and postretirement obligations	3,309	3,784
Conditional asset remediation obligation	258	(880)
Other liabilities	3,522	(1,404)
Government student loans and deferred revenue	(862)	4,012
Net cash provided by operating activities	113,817	98,174
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expended for property, plant, and equipment - University	(249,620)	(208,380)
Expended for property, plant, and equipment - commonwealth	(8,781)	(21,582)
Change in accounts payable for property, plant, and equipment	(486)	3,324
Purchases/sales of operating investments, net	(76,910)	133,065
Purchases of endowment investments	(4,135,729)	(2,411,292)
Proceeds from sales/maturities of endowment investments	4,210,040	2,482,201
Change in endowed funds held by third parties, excluding gains	(46)	(43)
Change in foundation assets	(1,206)	(1,804)
Net cash used for investing activities	(262,738)	(24,511)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayment of debt including bond refundings	(43,600)	(106,025)
Proceeds from issuance of debt	109,588	-
Contributions restricted for long-term investment	47,645	55,677
Net cash provided by (used for) financing activities	113,633	(50,348)
CHANGE IN CASH AND CASH EQUIVALENTS	$ (35,288)	$ 23,315
Supplemental disclosure of cash flow information:		
Cash paid for interest (excluding fees)	$ 30,282	$ 30,401
Noncash investing activity for property, plant, and equipment - accounts payable and capital lease obligations	$ 52,637	$ 28,598

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING PRACTICES

Organization
Founded in 1787, the University of Pittsburgh (the University) is one of the oldest institutions of higher education in the United States. The University's mission is to provide high-quality undergraduate and graduate programs in the arts and sciences and professional fields; engage in research, artistic, and scholarly activities that advance learning through the extension of the frontiers of knowledge and creative endeavor; cooperate with industrial and governmental institutions to transfer knowledge in science, technology, and health care; offer continuing educational programs adapted to the personal enrichment, professional upgrading, and career advancement interests and needs of adult Pennsylvanians; and make available to local communities and public agencies the expertise of the University in ways that are consistent with the primary teaching and research functions and contribute to social, intellectual, and economic development in the commonwealth, the nation, and the world.

The University's main campus in the City of Pittsburgh comprises 16 schools and several academic centers educating nearly 29,000 students in various undergraduate, graduate, and doctorate-professional programs. Four regional campuses with a total enrollment approximating 5,600 students are located throughout western Pennsylvania.

Relationship with the Commonwealth of Pennsylvania
The University derives its corporate existence under the laws of the Commonwealth of Pennsylvania (the commonwealth) by reason of the act of the General Assembly of the commonwealth establishing an "Academy or Public School in the town of Pittsburgh" on February 28, 1787 and from the act of February 18, 1819 incorporating the "Western University of Pennsylvania." In 1908, the University's name was changed to the "University of Pittsburgh" by order of the Court of Common Pleas of Allegheny County. In 1966, the Pennsylvania State Legislature enacted the "University of Pittsburgh-Commonwealth Act," which changed the name of the University to the "University of Pittsburgh – of the Commonwealth System of Higher Education" and established the University as an instrumentality of the commonwealth to serve as a state-related institution in the Commonwealth System of Higher Education. The University is a Pennsylvania nonprofit corporation subject to the Nonprofit Corporation Law of 1988.

The entire management, control, and conduct of the instructional, administrative, and financial affairs of the University are vested in the Board of Trustees. The Board of Trustees is comprised of fifty-two members (thirty-six voting members), including twelve commonwealth trustees and sixteen special trustees elected by the board. Special trustees may attend all meetings of the board and are entitled to and exercise all rights, responsibilities, and privileges of trusteeship, except the right to vote at board meetings.

Funding from the Commonwealth of Pennsylvania
As a state-related institution, the University receives an annual appropriation from the commonwealth. There is no assurance that such appropriation will continue to be made, or will be made, at current levels or at levels requested by the University. In addition, the commonwealth also funds certain capital projects in support of the University's mission, as well as support for sponsored research programs, as presented in the following table:

	2019	2018
	(in thousands of dollars)	
Commonwealth appropriation:		
General support	$ 148,536	$ 144,210
Rural Education Outreach	2,846	2,763
Supplemental funds – Academic Medical Centers and general support	23,293	22,707
Total commonwealth appropriation	174,675	169,680
Commonwealth construction grants	8,781	21,582
Commonwealth sponsored research programs	13,918	12,703
Total	$ 197,374	$ 203,965

Basis of Presentation
The consolidated financial statements include the accounts of the University, which do not include the net assets or activities of the University of Pittsburgh Medical Center (UPMC) or the University of Pittsburgh Physicians (UPP) clinical practice plans, as they are separate legal entities not controlled by the University. The University does have the right to designate one-third of the members of the UPMC Board of Directors and any Executive Committee thereof.

The other activities section of the Consolidated Statements of Activities includes investment gains, net of endowment distributions for operations; contributions for endowment; change in fair value of interest rate swaps; deferred tax benefit; other components of net periodic benefit cost; and nonperiodic changes in pension and postretirement benefit plans. Endowment distributions for operations represent those distributions not reinvested in the endowment (see Note 12).

Basis of Accounting
The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities.*

The University's net assets have been classified in accordance with the presence or absence of donor-imposed restrictions and are reported as follows:

- Net assets without donor restrictions - Includes revenues, gains, and losses, which are free from donor restriction and are available for the general operating purposes of the University. All University expenses are reported as a reduction in net assets without donor restrictions. This class of net assets includes contributions and endowment distributions whose donor-imposed restrictions have been met within the fiscal year as well as endowment funds designated by the University's Board of Trustees or management. Restrictions are considered to be released if unrestricted resources are used for a purpose for which restricted resources are available. Contributions for capital construction or acquisition are reported as net assets without donor restriction once the asset is placed into service.
- Net assets with donor restrictions - Includes donor-imposed restrictions that may be met by the University through the passage of time or through the use of such funds in accordance with the donor's wishes. These funds include endowed contributions and pledges requiring that the original corpus be maintained in perpetuity. The distributions generated by these contributions may be either expended or reinvested in the endowment in accordance with donor restrictions and endowment contribution and spending policies. This net asset category also includes donor restricted funds to be used as revolving student loan funds in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Consolidated Statements of Activities.

Estimates
Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Revenue Recognition – Contracts with Customers and Accounts Receivable
In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which, along with related amendments, replaces the existing revenue recognition requirements in GAAP. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange. In addition, Topic 606 requires disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Topic 606 also requires that tuition, fees, and auxiliary student revenues be presented in the Consolidated Statements of Activities at the transaction price, net of student aid (tuition discounts). Previously, such revenues were presented gross – at published rates – followed by a reduction for student aid. Accordingly, the University's 2018 Consolidated Statement of Activities has been revised to conform to the 2019 presentation.

The following table presents the University's net revenue subject to Topic 606:

	2019	2018
	(in thousands of dollars)	
Net tuition and fees	$ 639,561	$ 628,481
Sales and services, educational and other	292,912	256,877
Sales and services, auxiliary	151,020	151,688
Total	$ 1,083,493	$ 1,037,046

Revenues are recognized when control of the promised goods or services is transferred to the institutions' students or customers, in an amount that reflects the consideration the University expects to be entitled to in exchange for those goods or services. The University uses the portfolio approach, a practical expedient, to evaluate if a contract exists and to assess collectability at the time of contract inception based on historical experience. Contracts are subsequently reviewed for collectability periodically.

Tuition and fees include tuition from undergraduate, graduate and doctorate-professional programs (net of discounts), and various academic related fees. The University recognizes this revenue as the academic services are rendered and the performance obligation is met, which occurs ratably over the applicable period of instruction or academic term. Undergraduate programs totaled 71.7% and 71.6% of net tuition and fees in 2019 and 2018, respectively.

Tuition discounts are recorded to the extent that either institutional financial aid or aid funded by contributions, endowment distributions, and grant activities are awarded. Tuition discounts awarded in 2019 and 2018 were $206.0 million and $192.7 million, respectively. The portion of tuition discounts attributable to institutional funds in 2019 and 2018 were $174.1 million and $163.9 million, respectively. Tuition discounts attributable to contributions, donor-restricted endowment distributions, and grant activities were $31.9 million and $28.8 million in 2019 and 2018, respectively. Such discounts are reflected within net tuition and fees.

Sales and services, education and other includes revenues from UPMC and UPP to support teaching, research, and community service functions at the University, and revenues from activities to provide students an enhanced educational experience including athletics, student services, and the study abroad program. UPMC and UPP revenue comprises 62.2% and 57.5% of this total in 2019 and 2018, respectively. Revenue is recognized for these activities as performance obligations are met.

Sales and services, auxiliary includes revenues from activities conducted primarily to provide goods or services for students, faculty, and staff. Housing and meal plan revenue in 2019 and 2018 comprised 84.1% and 84.2%, respectively, and are recognized as performance obligations are met, which occurs ratably over the academic term. The remaining revenue consists primarily of book store and parking operations, which is generally recognized at the point of sale.

Students are invoiced prior to the start of the term and payment is generally due within three weeks of the start of classes. Student charges are comprised of all educational related items including tuition and educational materials. Receivables related to sales and services are invoiced based upon contractual terms with students and others.

The University maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known troubled accounts, the age of the receivable, the anticipated source of payment, historical allowance considerations, and other currently available evidence. Consideration is also given to any specific known risk areas among the existing accounts receivable balances. Receivables are written off when management determines they will not be collected. Recoveries of receivables previously written off are recorded when received.

The University has no significant contract assets or deferred contract costs at June 30, 2019 and June 30, 2018.

The University recognizes a contract liability, or deferred revenue, for payments received in advance of providing services under certain contracts. Contract liabilities include advanced receipt of student tuition and fees, athletic ticket sales, and housing and food service revenue. These contract liabilities are recorded in deferred student and other revenue on the Consolidated Balance Sheets. Revenue recognized related to contract liabilities in 2019 and 2018 was $43.2 million and $41.5 million, respectively.

Revenue Recognition - Contributions
In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to reduce diversity in reporting by clarifying (1) whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) whether a contribution is conditional.

Commonwealth appropriation revenue is provided by the commonwealth to support the general operations of the University, which allows for a reduction in tuition rates for Pennsylvania resident students. The reduction in rates in 2019 and 2018 amounted to $273.9 million and $256.6 million, respectively. Funds are to be spent in accordance with applicable laws and revenue is recognized ratably over the fiscal year as the funds are expended.

Commonwealth construction grants are provided by the commonwealth to fund certain capital projects in support of the University's mission. This revenue is classified as with donor restrictions until the capital project is completed and placed in service, at such time the net assets are released from restrictions.

The University conducts sponsored program activity with various sponsors, including agencies and departments of the federal government, the commonwealth, local government entities, companies, and foundations. Sponsored activity in 2019 and 2018 was $859.7 million and $808.1 million, respectively, with approximately 66% of the funding awarded through the National Institutes of Health. Most University sponsored activity is conducted on a cost-reimbursable basis with the University recognizing revenue as the related expenses have been incurred. Certain sponsors, however, provide funding in advance of related expenses, and such funding is recorded as advanced receipt of grant funds on the Consolidated Balance Sheets with revenue recognized as the related expenses are incurred. There is no assurance that sponsored awards will continue to be made at current levels.

The University initially records at fair value unconditional pledges (which are agreements with donors involving non-reciprocal transfers of cash or other assets) as net assets with donor restrictions or without donor restrictions depending on the nature of the donor-imposed restrictions. Contributions whose restrictions are met in the same fiscal year in which they are received are combined and reported with net assets without donor restrictions. Contributions receivable are discounted at a risk-adjusted rate commensurate with the donor's payment plan.

Conditional pledges of cash or other assets are recognized as contribution revenues and receivables when the conditions surrounding the pledge are substantially met.

Cash and Cash Equivalents and Operating Investments
Cash equivalents consist of operating investments with original maturities of 90 days or less. Operating investments include U.S. Treasury instruments and other high-quality, liquid securities that at the time of purchase are rated A3/P-1 or better by Moody's Investors Service or A-/A-1 or better by Standard & Poor's Ratings Services. Operating investments, together with cash, are utilized to fund the University's short-term operating needs and are invested with the expectation that such securities can be liquidated at their current value in a short time frame. Cash and cash equivalents that are part of endowment investments are shown therewith, as such funds are utilized for endowment purposes rather than University operating needs.

Foundation Assets
The University's foundation assets represent the Bradford Educational Foundation (BEF). The BEF is a 509(a)(3) Type III supporting organization whose sole purpose is to receive, administer, and distribute property for the benefit of the University of Pittsburgh Bradford campus. The BEF is governed by an independent board of directors, with the majority of members being non-University members. Although the University does not exercise control of the BEF, all assets held by the BEF are held for the financial benefit of the University. As such, the consolidated financial statements include the net assets and annual change in net assets of the BEF.

Endowment Investments
The University's endowment investments are reported at fair value. The fair value of direct University holdings in publicly traded securities and exchange traded funds are based upon quoted or published market prices. The fair value of all other investments, which consist of indirect holdings in both privately and publicly traded assets, is determined using net asset value (NAV) per share or unit of interest. Used as a practical expedient for the estimated fair value, NAV per share or its equivalent is provided by the fund manager and reviewed by the University. Indirect holdings of private assets primarily consist of University interests in funds investing in nonmarketable alternatives, real assets, and/or distressed securities, whereas indirect holdings of publicly traded assets primarily consist of University interests in marketable alternatives or other commingled funds. Nonmarketable alternatives are private equity or equity-like holdings, such as mezzanine and subordinated debt interests, in venture, buyout, or recapitalized companies or properties. Real assets are physical assets, or financial assets associated with such physical assets, whose income streams and/or fair values tend to rise with inflation; they include real estate, natural resources, commodities, and other hard assets. Marketable alternatives consist of absolute return-oriented strategies, distressed debt, long/short equity, and other hedging strategies. In the case of indirect holdings, changes in market conditions, economic environment, regulatory environment, currency exchange rates, interest rates, and commodity prices may significantly impact the NAV of the funds holding the investments and, consequently, the fair value of the University's interest in such funds and could materially affect the amounts reported in the consolidated financial statements. Although a secondary market exists for these investments, it is not active, and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant. The University attempts to manage these risks through diversification, ongoing due diligence of fund managers, maintaining adequate liquidity, and continuously monitoring economic and market conditions.

Dividend income is recognized net of applicable withholding taxes on the ex-dividend date. Noncash dividends are recorded at the fair value of the securities received. Interest income and expenses are recorded net of management fees and applicable withholding taxes on the accrual basis of accounting.

Government Loan Funds
U.S. government student loans are recorded as liabilities because these funds are refundable to the federal government under certain conditions. Student loan funds donated by private groups, organizations, or individuals are recorded as net assets with donor restrictions since such funds operate on a revolving fund basis with principal and interest payments remaining in the fund for future lending.

Derivative Financial Instruments
The University records derivatives at fair value on the Consolidated Balance Sheets with changes in fair value reflected in the Consolidated Statements of Activities (see Note 9).

Split-Interest Agreements
These agreements with donors consist primarily of charitable gift annuities, pooled income funds, and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Endowment investments include $31.2 million and $24.1 million at June 30, 2019 and 2018, respectively, for the split-interest agreements. Other liabilities include $15.6 million and $12.9 million at June 30, 2019 and 2018, respectively, for the split-interest agreements.

The University maintains separate and distinct reserve funds adequate to meet future payments of all outstanding charitable gift annuities administered by the University. The University complies with applicable state annuity reserve requirements.

Property, Plant, and Equipment, Net
Property, plant, and equipment is recorded at cost, or if acquired by contribution, at fair value as of the date of the contribution. Depreciation is calculated using the straight-line method. Useful lives generally range from 15 to 40 years for buildings and improvements and 5 to 10 years for furnishings and equipment. As assets are retired, sold, or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and gains or losses are recognized in the Consolidated Statements of Activities. Costs associated with the construction of new facilities and renovation and expansion of existing facilities are capitalized within construction in progress until such projects are placed in service. The University capitalizes software and certain implementation costs and generally depreciates such assets over 5 to 10 years. Works of art, historical treasures, and similar assets include a variety of paintings, sculptures, photographs, antiques, and furnishings, as well as scholarly papers and archives. These assets are used for public exhibition, the preservation of artifacts and antiques for future generations, and scholarly research. Due to their nature, these assets are not depreciated. Library books, which include hard copy publications, periodicals, and electronic publications with rights to archival content, are depreciated over a period of 7 years. Maintenance and repairs are expensed as incurred.

Insurance Liabilities
The University is self-insured through an agreement with UPMC to provide medical coverage for its employees. A liability for estimated incurred but unreported claims of $8.2 million and $7.5 million has been recorded at June 30, 2019 and 2018, respectively, based upon management's analysis of claims history. This liability is reflected in accrued payroll and related liabilities on the Consolidated Balance Sheets.

The University is also self-insured for other activities, including workers' compensation, unemployment compensation, and certain litigation claims. Liabilities have been established for these programs generally based on third-party administrators' estimates using the University's historical loss experience. The self-insurance accrual is subject to periodic adjustment by the University based on actual loss experience factors. Liabilities for these other self-insured obligations aggregated $6.0 million and $9.3 million at June 30, 2019 and 2018, respectively, and are included in accrued payroll and related liabilities on the Consolidated Balance Sheets.

Recent Accounting Pronouncements
In March 2017, FASB issued the Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (NFP's)(Topic 958): Presentation of Financial Statements for Not-for-Profit Entities.* The ASU is effective in the current fiscal year and has been adopted in 2019 including the required reclassification of the 2018 activities. ASU 2016-14 reduces the number of net assets classes from three to two, increases disclosure regarding liquidity (Note 2), and requires expenses to be reported by their natural and functional classifications in one location (Note 13). With respect to the net asset classes, and as a result of the adoption of ASU 2016-14, as of June 30, 2018 previously reported unrestricted net assets ($3.37 billion) were reduced by $19.5 million and reclassified to without donor restrictions and temporarily restricted net assets ($924.2 million) and permanently restricted net assets ($766.1 million) were combined and increased by $19.5 million and reclassified to with donor restrictions as of June 30, 2018. The change relates to the timing of release of the commonwealth construction grant revenue to align with when the constructed assets are placed into service.

In March 2017, FASB issued the ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires presentation of the service cost component of the net periodic benefit cost within the same line item or items as other compensation costs arising from services rendered by relevant employees during the period, and presentation of the other cost components of net periodic benefit cost separately and outside of the change in net assets from operating activities. The ASU is effective in fiscal year 2020, but the University has elected early adoption in the current year and applied the expense reclassification retrospectively (see Note 10).

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and in June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Both ASU's, and related amendments to ASU 2014-09, are effective for fiscal year 2019 and have been adopted in the current year. The University is using the modified retrospective approach for adopting Topic 606. The ASU had minimal impact on the recognition of University revenue. See Revenue Recognition – Contracts with Customers and Accounts Receivable; and Revenue Recognition – Contributions within this note for details.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU is effective for fiscal year 2020 and will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. The University is currently finalizing the implementation of this ASU (see Note 15 for the disclosure of lease commitments).

Tax-Exempt Status

The University is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The University annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements. No provision for income taxes was required for 2019 or 2018.

The University's federal net operating loss carryforwards as of June 30, 2019 are approximately $54.1 million and expire in years ranging from 2029 to 2037. Because management believes it is more likely than not that unrelated business activities will generate sufficient taxable income in the future in which all or part of these operating loss carryforwards will become deductible, a deferred tax benefit (included in inventories and deferred charges on the Consolidated Balance Sheets) of $11.4 million was recognized as of June 30, 2019. Previously, a full valuation allowance was recorded.

Reclassifications

Certain 2018 operating expense line items include reclassifications related to the presentation of internal cost recovery to conform with the 2019 presentation. In addition, the 2018 student wellness fee was reclassified from sales and services, educational and other to net tuition and fees to conform with the 2019 presentation.

NOTE 2: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As of June 30, the following financial assets could be made available within one year of the balance sheet date to meet general expenditures:

	2019	2018
	(in thousands of dollars)	
Cash and cash equivalents	$ 10,521	$ 45,809
Operating investments	448,012	360,951
Accounts and notes receivable	266,984	229,576
Payout on designated endowment – financial aid	66,629	59,515
Payout on endowments - other	79,385	76,629
Financial assets available within one year	$ 871,531	$ 772,480

The University regularly monitors liquidity required to meet all general and capital expenditures, liabilities, and contractual obligations, while striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general operating needs over a twelve-month period, the University considers all expenditures related to its ongoing activities of teaching, research, and public service mission. This includes operating expenses, principal and interest payments on debt, and capital-related expenditures. Resources not available to meet general expenditures within one year may include those with external limitations imposed by donors, laws, or contracts or internal limitations imposed by management restrictions.

The University has various sources of liquidity including cash and cash equivalents, operating investments, and lines of credit. Operating investments consist of high-quality securities which are utilized to fund the University's short-term operating needs and are invested with the expectation that such securities can be liquidated at their current value in a short time frame.

Accounts and notes receivable consist of amounts due from students; sponsors of research, instruction, and public service initiatives; UPMC; the commonwealth; and various other entities. All amounts are expected to be converted to cash within twelve months. Student loan receivables are not included as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

The University maintains a management designated endowment fund, the payout from which is used to support student financial aid.

Payout on other endowments represents distributions on endowments which are expected to be available for use in the next twelve months. These funds are primarily available to the academic units in which the endowments were directed and are used to support scholarships, chairs and other initiatives.

To help manage unanticipated liquidity needs, the University has four general unsecured credit facilities aggregating $100.0 million at June 30, 2019. No draws were made against the facilities during 2019. Termination dates on the lines of credit available at June 30, 2019 range from October 2019 to March 2020. It is management’s intention to extend each credit facility.

NOTE 3: ACCOUNTS AND NOTES RECEIVABLE, NET

Accounts and notes receivable, net, at June 30 consists of the following:

	2019	2018
	(in thousands of dollars)	
Sponsored grant receivables, net	$ 134,557	$ 120,480
Commonwealth appropriation receivable	63,500	51,285
Hospitals and affiliated organizations receivables, net	33,278	18,202
Other receivables, net	16,320	14,148
Plant construction receivables due from commonwealth	11,833	17,491
Student receivables, net	7,496	7,970
Total accounts and notes receivable, net	$ 266,984	$ 229,576

NOTE 4: CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net, at June 30 consists of the following:

	2019	2018
	(in thousands of dollars)	
Amounts due in:		
Less than one year	$ 17,890	$ 18,268
One to five years	32,026	34,905
Greater than five years	10,816	14,061
Gross contributions receivable	60,732	67,234
Less:		
Allowance for uncollectible pledges	(1,392)	(765)
Unamortized discounts	(3,677)	(6,308)
Total contributions receivable, net	$ 55,663	$ 60,161

At June 30, 2019 and 2018, the five largest outstanding pledge balances represented 55% and 61%, respectively, of the University's net contributions receivable.

The University has been named a beneficiary in the wills of numerous donors or has received conditional pledges totaling $283.5 million and $271.8 million at June 30, 2019 and 2018, respectively. These bequests are considered intentions to give and do not fall within the definition of an unconditional pledge, and hence, are not recognized in the consolidated financial statements.

NOTE 5: ENDOWMENT AND OPERATING INVESTMENTS

Investments at June 30 consist of the following:

	2019	2018
	(in thousands of dollars)	
Endowment investments:		
Pooled	$ 4,299,208	$ 4,188,409
Nonpooled	43,355	37,921
Subtotal endowment investments	4,342,563	4,226,330
Operating investments *(Note 1)*	469,630	382,935
Total endowment and operating investments	$ 4,812,193	$ 4,609,265
Composition of endowment investments:		
Cash and cash equivalents	$ 48,408	$ 101,225
Domestic equities	678,766	674,604
International equities	883,225	844,240
U.S. government and government agencies' securities, bank acceptances and certificates, and commercial paper	235,709	249,614
Corporate bonds and other obligations	74,151	108,862
Alternative investment funds, partnerships, and exchange traded funds:		
Marketable alternatives	854,520	830,639
Nonmarketable alternatives	884,248	745,331
Real assets	683,536	671,815
Total endowment investments	$ 4,342,563	$ 4,226,330
Composition of operating investments:		
U.S. government and government agencies' securities, repurchase agreements, and commercial paper	$ 260,809	$ 210,301
Corporate bonds and other obligations	185,103	148,909
Other	23,718	23,725
Total operating investments	$ 469,630	$ 382,935

Unless precluded by size or donor restrictions, individual endowment fund assets are pooled and collectively managed on a unitized basis. Each endowment fund subscribes to or disposes of units in the pool using fair value per unit at the beginning of the month such subscription or disposition occurs to account for the transaction.

The philosophies and policies employed in the management of the endowment are long-term by definition, as they are based on the expectation that the endowment will continue to provide financial support to the University in perpetuity. Accordingly, the University's investment policy is intended to optimize long-term total return — income plus capital appreciation — relative to the level of risk taken.

The University's investment policy contemplates the effects of its spending policy. The endowment spending policy balances the need for reliable and predictable earnings distributions to support current University activities with the desire to maintain the purchasing power of endowment assets so that they can continue providing financial support for future generations.

The following table summarizes the University's investments at June 30, 2019 and 2018, for which NAV was used as a practical expedient to estimate fair value:

Asset Class	Fair Value Determined Using NAV 2019	Fair Value Determined Using NAV 2018	Unfunded Commitments at June 30, 2019	Redemption Frequency	Redemption Notice Period
	(in thousands of dollars)				
International equities	$ 179,209	$ 139,647	$ -	30-90 days	30-120 days
Marketable alternatives:					
Redeemable within one year	654,700	711,582	-	30-365 days	30-180 days
Redeemable beyond one year	53,811	18,882	-	1-3 years	60-90 days
Nonredeemable	32,745	29,725	95,143	NA	NA
Total marketable alternatives	741,256	760,189	95,143		
Nonmarketable alternatives	884,248	745,331	668,849	NA	NA
Real assets:					
Redeemable	-	61,914	-	Daily	NA
Nonredeemable	657,914	585,947	439,305	NA	NA
Total real assets	657,914	647,861	439,305		
Total	$ 2,462,627	$ 2,293,028	$ 1,203,297		

Descriptions follow for each asset class set forth in the table above:

International Equities
A portion of the University's investments in emerging market equities includes interests in two funds that hold publicly traded emerging market equities.

Marketable Alternatives
The University's investments in marketable alternatives are interests in commingled funds that hold various combinations of long and short positions predominantly in publicly traded equities, fixed income, and financial derivatives. Funds that are nonredeemable typically have investment periods of three or more years during which committed capital may be called and invested. The University's interests in the nonredeemable funds are considered to be illiquid in that they are not easily transferable and typically achieve liquidity over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund assets.

Nonmarketable Alternatives
The University's investments in nonmarketable alternatives are interests in commingled, private equity funds, including venture capital. These funds are invested in equity and equity-like securities of mostly nonpublicly traded companies over investment periods of typically three to five years during which committed capital may be called and invested. The University's interests in private equity funds are considered to be illiquid in that they are not easily transferable and typically achieve liquidity over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund assets.

Real Assets
The University's investments in real assets are interests in commingled funds that hold various combinations of publicly and nonpublicly traded physical assets (such as real estate, natural resources, commodities, and utilities), the financial assets and derivatives associated with such physical assets, and the equity and equity-like securities of companies engaged in physical asset ownership, operations and/or services. Funds that are nonredeemable typically have investment periods of three or more years during which committed capital may be called and invested. The University's interests in the nonredeemable funds are considered to be illiquid in that they are not easily transferable and typically achieve liquidity over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund assets.

NOTE 6: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted or published prices in active markets for identical assets or liabilities that are available at the measurement date.
- Level 2 – Inputs other than quoted or published prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability that are used to measure fair value when observable inputs are not available. These inputs are developed based upon the best information available in such circumstances.

In the event that changes in the inputs used in the fair value measurement of an asset or liability result in a transfer of the fair value measurement into a different level, such transfers are recognized at the end of the reporting period.

The following tables summarize the inputs used in valuing the University's assets and liabilities carried at fair value, excluding investments stated at NAV as a practical expedient, at June 30, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
Assets	*(in thousands of dollars)*			
Cash and cash equivalents	$ 9,485	$ 1,036	$ -	$ 10,521
Endowment investments:				
Cash and cash equivalents	39,175	9,233	-	48,408
Domestic equities	678,766	-	-	678,766
International equities	696,058	5,417	2,541	704,016
U.S. government, corporate bonds, and other obligations	268,449	29,850	11,561	309,860
Marketable alternatives	23,270	89,994	-	113,264
Real assets	25,622	-	-	25,622
Subtotal endowment investments(1)	1,731,340	134,494	14,102	1,879,936
Operating investments:				
U.S. government, corporate bonds, and other obligations	378,037	67,875	-	445,912
Other	2,100	-	21,618	23,718
Endowed funds held by third parties	-	-	23,677	23,677
Total assets	$ 2,120,962	$ 203,405	$ 59,397	$ 2,383,764
Liabilities				
Interest rate swaps	$ -	$ 77,554	$ -	$ 77,554

	2018			
	Level 1	Level 2	Level 3	Total
Assets	*(in thousands of dollars)*			
Cash and cash equivalents	$ 31,428	$ 14,381	$ -	$ 45,809
Endowment investments:				
Cash and cash equivalents	80,475	20,750	-	101,225
Domestic equities	664,575	10,029	-	674,604
International equities	701,706	-	2,887	704,593
U.S. government, corporate bonds, and other obligations	288,141	59,585	10,750	358,476
Marketable alternatives	70,450	-	-	70,450
Real assets	23,954	-	-	23,954
Subtotal endowment investments[1]	1,829,301	90,364	13,637	1,933,302
Operating investments:				
U.S. government, corporate bonds, and other obligations	300,452	58,758	-	359,210
Other	1,741	-	21,984	23,725
Endowed funds held by third parties	-	-	23,591	23,591
Total assets	$ 2,162,922	$ 163,503	$ 59,212	$ 2,385,637
Liabilities				
Interest rate swaps	$ -	$ 56,789	$ -	$ 56,789

(1) The subtotals of endowment investments within the fair value tables above exclude investments of $2,462,627 and $2,293,028 as of June 30, 2019 and 2018, respectively, which are measured at NAV as a practical expedient and are not classified in the fair value hierarchy (see Note 5).

The following table summarizes the change in the Level 3 activity for the years ended June 30, 2019 and 2018:

	International Equities	U.S. Government Corporate and Other	Other Operating and Endowed Funds Held by Third Parties	Total
	(in thousands of dollars)			
Fair Value - June 30, 2017	$ 4,301	$ 9,348	$ 41,657	$ 55,306
Capital calls/purchases	-	1,175	3,366	4,541
Distributions/sales	(1,340)	-	(1,155)	(2,495)
Realized gains	144	-	-	144
Unrealized (losses) gains	(218)	227	1,707	1,716
Fair Value - June 30, 2018	$ 2,887	$ 10,750	$ 45,575	$ 59,212
Capital calls/purchases	-	1,300	1,070	2,370
Distributions/sales	(448)	(800)	(982)	(2,230)
Realized gains	107	65	-	172
Unrealized (losses) gains	(5)	246	(368)	(127)
Fair Value - June 30, 2019	$ 2,541	$ 11,561	$ 45,295	$ 59,397

Realized and unrealized gains (losses) for Level 3 activity are reported in other activities in the Consolidated Statements of Activities. An unrealized loss of $0.2 million and an unrealized gain of $1.0 million were recognized related to these investments held at June 30, 2019 and 2018, respectively.

NOTE 7: PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment, net, at June 30 is summarized below:

	2019	2018
	(in thousands of dollars)	
Land	$ 75,658	$ 63,849
Buildings and improvements	3,465,813	3,247,659
Equipment	804,690	783,323
Library books	308,705	297,372
Works of art, historical treasures, and similar assets	21,690	21,555
Construction in progress	151,790	185,442
Subtotal	4,828,346	4,599,200
Less: Accumulated depreciation	(2,898,427)	(2,765,071)
Total property, plant, and equipment, net	$ 1,929,919	$ 1,834,129

The amount capitalized in property, plant, and equipment related to expenditures funded by the commonwealth on behalf of the University totaled $779.9 million and $757.5 million at June 30, 2019 and 2018, respectively. The net book value of these items was $330.1 million and $333.9 million at June 30, 2019 and 2018, respectively.

The University has recognized a liability for conditional asset retirement obligations. The University performed an analysis of such obligations and determined that asbestos remediation costs represented the primary source of the liability. The University reviewed facilities on all campuses and estimated the timing, method, and cost of remediation. The resulting liability for conditional asset remediation obligations recognized at June 30, 2019 and 2018 was $30.0 million and $29.8 million, respectively.

NOTE 8: BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30 are reported based upon outstanding principal and consists of the following:

	Range of Years Remaining to Maturity	2019 Effective Interest Rates	Outstanding Principal (in thousands of dollars) 2019	2018
Variable-rate bonds and notes:				
Series 2017-C1, taxable	12-20	2.03%-2.63%	$ 55,000	$ 55,000
Series 2017-C2, taxable	20-22	2.00%-2.58%	55,000	55,000
Series 2017-C3, taxable	13-18	2.08%-2.72%	50,000	50,000
Series 2014-B1/B2, tax-exempt	6-16	1.35%-1.90%	46,000	46,000
Series 2018 PANTHER™ Notes, due September 15, 2021		1.52%-2.54%	110,000	-
Total variable-rate bonds and notes			316,000	206,000
Fixed-rate bonds:				
Series 2017-A, taxable	3 mos.-17	1.43%-3.65%	434,900	477,500
Series 2017-B, taxable	3 mos.-11	1.41%-3.60%	102,335	103,335
Series 2014-A, tax-exempt	17-25	3.51%-3.65%	49,000	49,000
Noninterest-bearing promissory note			171	171
Total fixed-rate bonds			586,406	630,006
Unamortized net premium			1,274	1,335
Debt issuance costs			(3,993)	(3,921)
Total bonds and notes payable			**$ 899,687**	**$ 833,420**

The principal payments of bonds and notes payable for the next five years ending June 30 in millions of dollars are:

2020	$ 42.6
2021	$ 41.8
2022	$ 151.2
2023	$ 39.4
2024	$ 40.8

The foregoing principal payments do not include $206.0 million of variable-rate demand bonds (VRDBs) in commercial paper (CP) mode, all of which have final maturity dates between 2030 and 2041. These bonds bear short-term rates that are fixed over staggered periods of approximately 90 days each and are remarketed at the expiry of their respective rate periods.

Liquidity support for the $206.0 million of outstanding VRDBs in CP mode is provided by the University. In the event that the University receives notice of an optional tender on its VRDBs in CP mode, the tendered bonds will be purchased with remarketing proceeds. If the remarketing proceeds are insufficient to purchase all tendered bonds, the University would have a current obligation to meet the shortfall. As an additional source of liquidity for this situation, the University entered into a $40.0 million unsecured standby liquidity agreement with a financial institution that matures in June 2020. Since the University commenced providing self-liquidity in October 2009, there have been no failed remarketings.

On January 17, 2017, the University issued $512.5 million fixed-rate Taxable University Refunding Bonds (Series 2017-A). The proceeds were used to fund an escrow account that was irrevocably placed with a trustee to meet the principal and interest payments of the Series 2000-A/B/C ($124.4 million), Series 2002-A ($20.0 million), and Series 2002-B ($14.5 million) fixed-rate bonds until their first call date of September 15, 2019; Series 2009-A/B ($290.3 million) fixed-rate bonds, which were called on March 15, 2019; and to redeem $15.0 million tax-exempt Series 2002-B VRDBs in CP mode. The Series 2017-A bonds were issued at par.

On March 21, 2017, the University issued $104.4 million fixed-rate Taxable University Refunding Bonds (Series 2017-B). The proceeds were used to fund an escrow account that was irrevocably placed with a trustee to meet the principal and interest payments of the Series 2005-A ($35.0 million) and Series 2007-B ($60.0 million) fixed-rate bonds until their respective first call date. The Series 2017-B bonds were issued at par.

On May 4, 2017, the University issued $160.0 million in Taxable University Refunding Bonds (Series 2017-C); such bonds were issued as VRDBs in CP mode. The proceeds were used to redeem $159.6 million tax-exempt Series 2005-A/B/C and Series 2007-B VRDBs at their CP maturity date.

In August 2018, the University issued its Pitt Asset Notes – Tax-Exempt Higher Education Registered Series of 2018 (Series 2018 PANTHERS™ Notes) in the amount of $110.0 million to reimburse the University for prior capital and equipment expenditures. These three-year floating rate notes will mature on September 15, 2021.

Interest costs incurred in 2019 and 2018 were $30.1 million and $30.2 million, respectively. Included in these amounts are net swap payments and capitalized interest associated with various construction projects. Capitalized interest for 2019 and 2018 was $0.9 million and $0.5 million, respectively.

NOTE 9: DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

The University does not issue or trade derivative financial instruments except as described herein. University financial assets are invested on its behalf with various investment managers, some of whom are authorized to employ derivative instruments, including swaps, futures, forwards, and options. These derivatives are generally used for managing interest rate or foreign currency risk or to attain or hedge a specific financial market position. Additionally, the University has entered into various interest rate swap agreements to hedge its interest rate risk associated with certain debt obligations.

The University may be exposed to financial loss should a derivative counterparty fail to perform pursuant to the instrument. Counterparties are typically financial institutions or exchanges. Counterparty risks are mitigated by using creditworthy counterparties, settling positions periodically, and requiring collateral to be posted at predetermined levels of exposure.

Not including University derivative instruments held by various alternative investment funds, the University invested in futures contracts with gross notional values of $92.2 million and $59.8 million at June 30, 2019 and 2018, respectively. When the University uses futures to replicate an investment position, it posts the required collateral. Futures contracts are marked-to-market daily based on settlement prices established by the board of trade or exchange on which they are traded. Gains and losses are realized when the contracts expire or are closed. There were unrealized gains of $1.5 million and unrealized losses of $0.7 million on these future contracts at June 30, 2019 and June 30, 2018, respectively.

The University liabilities arising from variable-to-fixed interest rate swap agreements associated with certain University debt obligations had an aggregated fair value of $77.6 million and $56.8 million at June 30, 2019 and 2018, respectively, and are included in other liabilities on the Consolidated Balance Sheets (see also Note 6). The fair value represents the estimated amount the University would be required to pay to terminate these agreements as of the respective fiscal year-end. The University recorded in the Consolidated Statements of Activities an unrealized loss of $20.8 million in 2019 and an unrealized gain of $20.5 million in 2018, due to changes in fair value of the swaps.

The aggregate notional amount of the swap agreements associated with University debt was $320.3 million and $335.3 million at June 30, 2019 and 2018, respectively. These swaps were entered into for the sole purpose of hedging interest payable on certain University VRDBs. The variable interest rates received by the University under the swap agreements are either 67% or 70% of one- or three-month London Interbank Offered Rates (LIBOR), while the fixed rates paid by the University range from 3.25% to 5.14%. Net swap payments made or received by the University are reported in interest expense in the Consolidated Statements of Activities. No collateral was called or posted during 2019 or 2018 with respect to these swap agreements. Furthermore, the University does not anticipate posting collateral pursuant to these swap agreements since there are no collateral thresholds applicable to the University given the University's current credit ratings.

NOTE 10: PENSION AND POSTRETIREMENT OBLIGATIONS

Pension
The University provides retirement benefits under contributory or noncontributory plans to substantially all employees. The University's contributory plan provides for participant directed investment in certain investments managed by the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) and in certain investment funds of the Vanguard Group. The plan requires three years of service for vesting of the University contribution. Employees hired before January 1, 1995 were immediately vested. University contributions to this plan in 2019 and 2018 were $86.3 million and $82.5 million, respectively.

The noncontributory plan is a defined-benefit pension plan that covers employees who do not participate in the contributory plan. The plan was amended to freeze new entrants effective November 3, 2015. The plan provides for vesting after five years with pension benefits accruing at 2.1% of base salary or the Social Security wage base, whichever is lower. Pension benefits are payable upon normal retirement at age 65 or early retirement at age 55, in accordance with the conditions and pension eligibility criteria described in the plan. University contributions to this plan in 2019 and 2018 were $4.9 million and $6.7 million, respectively.

Postretirement
The University also provides postretirement medical and life insurance benefits to eligible employees and their spouses upon retirement through a contributory benefit plan.

Though funding is not required, the University has elected to fund its postretirement liability via a Board designated endowment fund, which is managed within the University's pooled endowment investments (see Notes 5 and 12). The fair value of this fund at June 30, 2019 and 2018 was $479.5 million and $455.0 million, respectively, and is included in endowment investments on the Consolidated Balance Sheets. Although the University has established this endowment for the postretirement plan, payments to beneficiaries of this plan are currently made through non-endowed operating funds.

Under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, the federal government provides a subsidy to employers equal to 28% of the employer's qualifying prescription drug costs for retirees if the plan offered by the employer is at least actuarially equivalent to Medicare Part D. The University is qualified for and receives the subsidy via a reduction in premiums charged by its provider.

The University uses a measurement date of June 30 for plan assets and the benefit obligations. Information related to the benefit obligation, assets, and funded status of the defined-benefit pension plan and the postretirement benefit plan as of and for the years ended June 30, 2019 and 2018 is summarized in the table below:

	Defined-Benefit Plan		Postretirement Plan	
	2019	2018	2019	2018
	(in thousands of dollars)			
Service cost	$ 7,151	$ 8,089	$ 19,099	$ 19,224
Other components of net periodic benefit cost:				
Interest cost	$ 6,950	$ 6,069	$ 22,179	$ 20,237
Expected return on plan assets	(10,480)	(9,393)	-	-
Actuarial loss	1,287	1,887	2,305	3,637
Total	$ (2,243)	$ (1,437)	$ 24,484	$ 23,874
Funded status:				
Benefit obligation at beginning of year	$ 164,979	$ 156,877	$ 531,620	$ 528,040
Service cost	7,151	8,089	19,099	19,224
Interest cost	6,950	6,069	22,179	20,237
Actuarial loss (gains)	24,610	(4,783)	24,170	(19,003)
Benefits paid	(1,499)	(1,273)	(18,034)	(16,878)
Benefit obligation at end of year	$ 202,191	$ 164,979	$ 579,034	$ 531,620
Fair value of plan assets at beginning of year	$ 146,011	$ 130,831		
Actual return on plan assets	8,961	9,801		
Actual plan contributions	4,907	6,652		
Benefits paid	(1,499)	(1,273)		
Fair value of plan assets at end of year	$ 158,380	$ 146,011		
Funded status – liability recognized on Consolidated Balance Sheets:				
Pension and postretirement obligations	$ (43,811)	$ (18,968)	$ (579,034)	$ (531,620)
Accumulated benefit obligation	$ 193,323	$ 157,471		

Estimated 2020 employer contribution to the defined-benefit plan: *(in thousands of dollars)*	$ 6,728

	Defined-Benefit Plan		Postretirement Plan	
	2019	2018	2019	2018
Weighted-average assumptions used to determine the benefit obligation (liability) at June 30:				
Discount rate	3.8%	4.25%	3.7%	4.25%
Rate of compensation increase	3.0%	3.0%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	6.75%	7.0%
Initial trend – post-age 65 retirees	-	-	6.0%	6.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2029	2026
Weighted-average assumptions used to determine the net periodic cost (expense) for the years ended June 30:				
Discount rate	4.25%	3.9%	4.25%	3.9%
Rate of compensation increase	3.0%	3.0%	-	-
Expected long-term return on plan assets	7.25%	7.25%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.0%	7.0%
Initial trend – post-age 65 retirees	-	-	6.0%	7.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2026	2025

Estimated future benefit payments:	Defined-Benefit Plan	Postretirement Plan
	(in thousands of dollars)	
2020	$ 4,452	$ 18,369
2021	$ 4,829	$ 21,340
2022	$ 5,226	$ 22,846
2023	$ 5,703	$ 24,513
2024	$ 6,152	$ 26,019
2025 – 2029	$ 38,260	$ 153,856

A one-percentage point change in assumed health care cost trend rates would have the following effects on the postretirement plan:

	Increase		Decrease	
	(in millions of dollars)			
	Revised Amount	Percent Change	Revised Amount	Percent Change
Service and interest cost (medical component only)	$ 39.3	2.2%	$ 37.6	2.3%
Total periodic benefit cost	$ 45.3	3.9%	$ 41.7	4.3%
Benefit obligation for health care benefits	$ 546.1	3.1%	$ 510.6	3.6%
Total benefit obligation	$ 595.2	2.8%	$ 559.9	3.3%

Pension Assets

Assets related to the University's defined-benefit pension plan are segregated in a trust managed by a third-party investment manager. The fair value of these assets at June 30, 2019 and 2018 was $158.4 million and $146.0 million, respectively. The fund is invested through common collective trust funds in domestic and international equities and fixed-income securities using the S&P 500 Index as a benchmark for domestic equities, the MSCI EAFE Index for international equities, and the Barclays Intermediate Government/Credit Bond Index for the fixed-income securities. Common collective trust funds are similar to mutual funds; however, they are generally not registered with the U.S. Securities and Exchange Commission and participation is not open to the public but limited to institutional investors. The specific investment objective is to meet or exceed the investment policy benchmark over the long term. Plan investment valuations are determined using NAV per share available at the measurement date, as published by the fund manager. The plan has no unfunded commitments. Pension plan assets are Level 1 in the fair value hierarchy.

The long-term investment strategy for pension plan assets is to meet present and future benefit obligations to all participants and beneficiaries; cover reasonable expenses incurred to provide such benefits, including expenses incurred in the administration of the trust and the plan; provide sufficient liquidity to meet benefit and expense payment requirements on a timely basis; and provide a total return that, over the long term, maximizes the ratio of trust assets to liabilities by maximizing investment return, at an appropriate level of risk. The expected return on plan assets is based on a weighted average of the individual expected return for each asset category in the plan's portfolio. Expected return comprises inflation plus the real rate of return for each asset class.

Over the long term, asset allocation is believed to be the single greatest determinant of risk and return. Asset allocation will deviate from the target percentages due to market movement, cash flows, and investment manager performance. Material deviations from the asset allocation target can alter the expected return and risk of the trust. However, frequent rebalancing to the asset allocation targets may result in significant transaction costs, which can impair the trust's ability to meet its investment objective.

The target allocation for both fiscal years and the fair value of the University's pension plan assets at June 30, by asset category, were as follows:

	Target Allocation	2019	2018
Asset class:		*(in thousands of dollars)*	
Equity securities:			
Stock index and small cap	35%	$ 55,096	$ 50,326
International	35%	55,525	51,049
Debt securities	30%	47,475	44,136
Cash and cash equivalents	-	284	500
Total pension plan assets		$ 158,380	$ 146,011

NOTE 11: NET ASSETS

Net assets at June 30 consist of the following:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
	(in thousands of dollars)		
Endowments – instruction and academic support	$ -	$ 1,084,845	$ 1,084,845
Endowments – financial aid	-	374,395	374,395
Endowments – other	-	204,226	204,226
Endowment designated for financial aid	1,704,446	-	1,704,446
Endowment designated for postretirement benefits	479,494	-	479,494
Endowments designated for schools and other	468,429	-	468,429
Total endowment net assets	2,652,369	1,663,466	4,315,835
Net invested in plant and other	763,467	-	763,467
Pledges, loan funds, and other	-	89,458	89,458
Total net assets	$ 3,415,836	$ 1,752,924	$ 5,168,760

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
	(in thousands of dollars)		
Endowments – instruction and academic support	$ -	$ 1,047,947	$ 1,047,947
Endowments – financial aid	-	363,959	363,959
Endowments – other	-	195,854	195,854
Endowment designated for financial aid	1,683,220	-	1,683,220
Endowment designated for postretirement benefits	454,963	-	454,963
Endowments designated for schools and other	479,361	-	479,361
Total endowment net assets	2,617,544	1,607,760	4,225,304
Net invested in plant and other	729,390	-	729,390
Pledges, loan funds, and other	-	102,100	102,100
Total net assets	$ 3,346,934	$ 1,709,860	$ 5,056,794

Endowments with donor restrictions require the original corpus be maintained in perpetuity. The distributions generated by these funds may be either expended or reinvested in the endowment, in accordance with donor restrictions and the endowment contribution and spending policy (see Note 12). Expendable funds are made available for the schools to use for instruction, academic support, scholarships, fellowships, chairs and other academic initiatives in accordance with donor wishes and University policy. The principal of endowment funds with donor restrictions was $771.8 million and $738.4 million as of June 30, 2019 and 2018, respectively. Pledges, loan funds, and other includes endowed and non-endowed pledges and student loan funds restricted by donors.

The endowment designated for financial aid was established exclusively to provide financial aid to students. During 2019 and 2018, the endowment distributed $66.6 million and $59.5 million, respectively (Note 2).

The endowment designated for postretirement benefits was established by the Board of Trustees to support the University's postretirement health and life insurance benefits for employees. Distributions from this endowment totaled $18.3 million and $16.9 million in 2019 and 2018, respectively, and were returned to principal. Postretirement liabilities of $579.0 million as of June 30, 2019 and $531.6 million as of June 30, 2018 are reported in pension and postretirement liabilities on the Consolidated Balance Sheets.

Endowments designated for schools and other include both Board and management designated endowments. Endowments designated to the schools support scholarships, fellowships, chairs, and other academic initiatives. Endowments designated by management support self-insurance liabilities and other general purposes. Cash not yet invested in the consolidated endowment pool as of June 30 is included in endowments designated for schools and other.

Invested in plant and other primarily includes the value of University property net of debt and other capital-related liabilities. Other capital-related liabilities include the valuation of the University's interest rate swap agreements and the conditional asset retirement obligation (see Note 7).

NOTE 12: ENDOWMENT NET ASSETS

The commonwealth has not adopted The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and, instead, enacted in December 1998 Pennsylvania Act 141 (codified as Title 15 of the Pennsylvania Consolidated Statutes §5548(c) and referred to herein as Title 15) to govern the investment of restricted funds held in trust by Pennsylvania nonprofit corporations. Title 15 permits Pennsylvania nonprofit corporations to elect a total return approach for determining income distributions from restricted funds held in trust, whereby income is defined as a stipulated percentage of the value of the assets held; the stipulated percentage must be determined at least annually and may be no less than 2% nor more than 7%, and the value of the assets held must be averaged over a period of three or more preceding years. A resolution to elect a total return approach for determining endowment income distributions for the University's consolidated investment pool was passed by the University's Board of Trustees on October 21, 1999. The University's endowment income distribution is determined annually using a stipulated percentage of 4.25% of the endowment's three-year average fair value, provided that such distribution is not less than the amount distributed in the previous year.

Employing the total return approach, the University records the original value of an endowed contribution as net assets with donor restrictions, along with any endowment income distributions that are reinvested in the endowment. Non-endowed funds that lack third-party donor restrictions but function as endowments (designated endowments) are classified as net assets without donor restrictions. Gains and losses attributable to donor-restricted endowed funds and designated endowment funds are recorded as net assets with donor restrictions and without donor restrictions, respectively.

The change in endowment net assets for the years ended June 30, 2019 and 2018 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
	(in thousands of dollars)		
Endowment net assets – June 30, 2017	$ 2,439,453	$ 1,515,088	$ 3,954,541
Endowment return:			
Endowment earnings	15,285	1,495	16,780
Gains	262,111	64,054	326,165
Total endowment return	277,396	65,549	342,945
Contributions	270	27,123	27,393
Distributions for operations	(136,144)	-	(136,144)
Net transfers	36,569	-	36,569
Endowment net assets – June 30, 2018	2,617,544	1,607,760	4,225,304
Endowment return:			
Endowment earnings	15,603	1,657	17,260
Gains	165,017	22,559	187,576
Total endowment return	180,620	24,216	204,836
Contributions	136	31,490	31,626
Distributions for operations	(146,014)	-	(146,014)
Net transfers	83	-	83
Endowment net assets – June 30, 2019	$ 2,652,369	$ 1,663,466	$ 4,315,835

Approximately 99% of the University's endowment funds are collectively managed in a broadly diversified pool of assets called the consolidated investment pool. The Investment Committee of the Board of Trustees provides general oversight, policy guidance, and performance review of the consolidated investment pool and approves asset allocation and spending policies.

NOTE 13: FUNCTIONAL EXPENSES

The University accounts for expenses according to major classes of program services or functions. Functional expenses for the years ended June 30 consist of the following:

2019	Program Services: Academics	Program Services: Research and Related	Program Services: Student Services	Program Services: Auxiliary Enterprises	Support Services	Total
	(in thousands of dollars)					
Salaries and wages	$ 495,462	$ 373,335	$ 76,385	$ 20,881	$ 88,983	$ 1,055,046
Fringe benefits	136,459	105,269	24,981	7,359	26,023	300,091
Total compensation	631,921	478,604	101,366	28,240	115,006	1,355,137
Supplies	33,995	71,021	9,109	2,750	5,794	122,669
Business and professional	60,505	187,642	40,909	45,106	40,141	374,303
Facilities	45,541	22,463	8,526	19,608	7,219	103,357
Depreciation	79,570	46,784	16,793	26,445	15,243	184,835
Interest	12,032	7,126	2,535	6,067	2,377	30,137
Rent	19,110	26,451	2,851	1,104	2,991	52,507
Other	1,570	19,157	4,421	23,340	(6,187)	42,301
Total operating expenses	884,244	859,248	186,510	152,660	182,584	2,265,246
Other components of net periodic benefit cost	10,445	7,871	1,610	440	1,875	22,241
Total	$ 894,689	$ 867,119	$ 188,120	$ 153,100	$ 184,459	$ 2,287,487

2018	Program Services: Academics	Program Services: Research and Related	Program Services: Student Services	Program Services: Auxiliary Enterprises	Support Services	Total
	(in thousands of dollars)					
Salaries and wages	$ 483,087	$ 350,628	$ 70,194	$ 18,926	$ 82,239	$ 1,005,074
Fringe benefits	133,217	98,486	22,966	6,739	24,822	286,230
Total compensation	616,304	449,114	93,160	25,665	107,061	1,291,304
Supplies	31,156	66,594	7,294	1,945	5,043	112,032
Business and professional	61,109	179,210	38,298	41,491	30,299	350,407
Facilities	43,879	21,808	7,193	17,789	4,436	95,105
Depreciation	77,438	44,260	15,178	26,454	13,880	177,210
Interest	11,998	6,914	2,346	6,614	2,299	30,171
Rent	18,497	26,821	2,542	13	2,210	50,083
Other	4,060	15,978	6,321	23,740	(3,187)	46,912
Total operating expenses	864,441	810,699	172,332	143,711	162,041	2,153,224
Other components of net periodic benefit cost	10,785	7,829	1,566	422	1,835	22,437
Total	$ 875,226	$ 818,528	$ 173,898	$ 144,133	$ 163,876	$ 2,175,661

Costs related to the operation and maintenance of property, including depreciation of property and equipment and interest on related debt, are allocated to program services and support services based upon salary effort.

Academics includes instructional, academic support, and library costs. Research and related includes sponsored programs related to research and development as well as public service activity such as clinical trials. Student services represents expenses supporting the well-being and development of students outside of direct instruction. Student admissions, registration, counseling, and advising, as well as intercollegiate athletics are included in student services. Auxiliary enterprises consists of costs to provide services to students, faculty, and staff, such as student housing, meal plans, parking, and book store activity. Support services consists of institution-wide functions in support of the University's academic, research, and public service mission.

NOTE 14: RELATED PARTIES

The University has relationships and affiliation agreements with separately incorporated entities including UPMC and affiliated hospitals and UPP. These relationships include a common paymaster arrangement for certain University School of Medicine (SOM) faculty with academic and clinical responsibilities; contractual obligations for UPMC and UPP to support certain educational and research functions at the University; and property rental agreements. There is no guarantee these agreements will be renewed in future periods. Transactions with all related entities are conducted in the ordinary course of business and are discussed below.

The following summarizes the significant related party transactions between the University and UPMC for the years ended June 30, 2019 and 2018:

Service Agreement	Location on the Consolidated Financial Statements	2019	2018
		(in thousands of dollars)	
Common paymaster arrangement[a]	Net on balance sheet	$ 119,196	$ 113,878
Facilities-related services, mail, telephone, printing, and other services[a]	Net on balance sheet	16,491	15,249
Net balance sheet transactions with UPMC		$ 135,687	$ 129,127
UPMC dean's tax, Children's Hospital of Pittsburgh, and other academic support[b]	Sales and services, educational and other	$ 104,178	$ 84,642
UPMC academic affiliation agreement[c]	Sales and services, educational and other	31,000	30,500
UPMC Hillman Cancer Center research support payments[d]	Sales and services, educational and other	17,237	10,039
Rental revenue[e]	Rental revenue	10,209	10,226
Cost sharing for Medical and Health Sciences Foundation[f]	Sales and services, educational and other	3,657	3,644
UPMC Enterprises	Contributions for operations	2,250	-
Institute for Personalized Medicine	Sales and services, educational and other	1,880	1,946
Revenues from UPMC		$ 170,411	$ 140,997
Health insurance coverage for University employees[g]	Fringe benefits	$ 130,608	$ 124,970
WPIC and UPMC Hillman Cancer Center research services[h]	Primarily compensation	27,007	26,258
Rental expense paid to UPMC[e]	Rent	23,999	23,332
Expenses paid to UPMC		$ 181,614	$ 174,560

(a) Certain University SOM faculty and staff provide clinical services through their University appointments to UPMC, UPP, and affiliated hospitals. The University invoices these entities monthly for reimbursement of the clinical portion of the associated compensation costs. SOM faculty members, having both a University academic appointment and a separate, external appointment for clinical responsibilities, participate in the common paymaster arrangement for purposes of determining appropriate FICA taxation. In addition to the reimbursable compensation costs, the University also engages in other transactions with these entities, which include providing certain facilities-related services, telephone, mailing, printing, and various other services, which are reimbursed at cost.

(b) UPMC provides support to the SOM for the school's general academic mission, research, new programs, and faculty recruitment; and to augment operating budgets for certain departments that do not generate sufficient revenues to meet their academic and research costs. Additionally, UPMC provides financial support to the SOM through the Children's Hospital of Pittsburgh of UPMC (CHP), which supports pediatric research programs.

(c) The University signed an agreement with UPMC that included financial commitments designed to further the two entities' commitment to their interrelated teaching, research, clinical care, and community service missions. As part of the agreement, UPMC provides annual funding for the SOM.

(d) UPMC provides support payments to the UPMC Hillman Cancer Center (UHCC) for various subsidies, research initiatives, and general support.

(e) The University is involved in certain rental arrangements in which the University acts as both lessor or lessee with UPMC and its affiliates.

(f) In 2003, the University and UPMC created the Medical and Health Sciences Foundation (MHSF), a separate 501(c)(3) organization. The MHSF serves as a unified fundraising organization for the University's schools of the health sciences and UPMC. The arrangement calls for the cost of MHSF to be split between the University and UPMC.

(g) UPMC serves as the provider of health insurance coverage to all eligible University employees who enroll in the plan. The University is self-insured for these costs and reimburses UPMC for actual claims cost.

(h) The University has an arrangement with UPMC whereby certain research-related costs incurred by UPMC (primarily staff compensation) in relation to the Western Psychiatric Institute and Clinic (WPIC) and UHCC research awards are charged to such awards via an electronic billing and reimbursed to UPMC each month.

A lease arrangement exists between the University and the commonwealth for WPIC. Since 1949, the University has managed WPIC under an agreement between the University and the commonwealth whereby the University rents for a consideration of $1 per year the land, building, equipment, and other items that are used by WPIC. The agreement provides for continuing terms of 10 years each; however, this agreement is cancelable by either party on one year's written notice. In 1992, the University subleased to UPMC the land, building, equipment, and other items subject to the current lease arrangement between the commonwealth and the University. This sublease arrangement continued to be in effect during 2019 and 2018. Included in property, plant, and equipment is $181.4 million and $193.2 million at June 30, 2019 and 2018, respectively, related to the land, buildings, and equipment used by WPIC. Accumulated depreciation related to these assets totaled $156.9 million and $167.6 million at June 30, 2019 and 2018, respectively.

NOTE 15: COMMITMENTS AND CONTINGENCIES

At June 30, 2019 and 2018, the University had outstanding contractual commitments of $141.8 million and $66.1 million, respectively, for property, plant, and equipment expenditures.

The University engages in various leasing activities as both a lessor and lessee. Rental revenue from operating leases was $18.3 million and $18.4 million in 2019 and 2018, respectively. Rental expense for operating leases was $52.5 million in 2019 and $50.1 million in 2018. Minimum future rental revenue and expense under operating leases that have initial or remaining noncancelable lease terms or expected variable lease commitments for the years ended June 30 are as follows:

	Rental Revenue	Rental Expense
	(in thousands of dollars)	
2020	$ 16,873	$ 54,391
2021	$ 16,140	$ 43,378
2022	$ 13,312	$ 37,678
2023	$ 11,523	$ 32,291
2024	$ 9,721	$ 30,054
Thereafter	$ 7,617	$ 136,868

The University classifies certain lease transactions as capital leases. As of June 30, 2019 and 2018, assets recorded under capital leases were $42.6 million and $18.1 million, respectively, and accumulated depreciation recorded under capital leases was $13.7 million and $11.2 million, respectively. During 2019, the University acquired property and equipment under capital leases totaling $24.5 million. There was no property or equipment acquired under capital leases in 2018. As of June 30, 2019 and 2018, capital lease obligations included in other liabilities on the Consolidated Balance Sheets were $29.6 million and $6.7 million, respectively. Future minimum lease payments under non-cancellable capital leases in thousands of dollars for the years ended June 30 are as follows:

2020	$ 3,005
2021	2,861
2022	2,884
2023	2,908
2024	2,975
Thereafter	29,371
Total payments	44,004
Less: interest	(14,419)
Total	$ 29,585

In May 2019, the University entered into a transaction with a third-party developer and its affiliates to develop a mixed-use facility consisting of commercial, laboratory, parking, and office space at 5051 Centre Avenue in Pittsburgh. The transaction calls for the University to lease portions of the property to the developer with the University leasing back a portion of the space for research and academic purposes once the development is completed in a few years. The transaction will be accounted for in accordance with ASU No. 2016-02, *Leases*, once the new accounting standard is adopted in 2020 (see Note 1 – Recent Accounting Pronouncements).

The University is a defendant in a number of legal actions seeking damages and other relief from the University. While the final outcome of each action cannot be determined at this time, legal counsel and University management are of the opinion that the liability, if any, in these legal actions will not have a material adverse effect on the University's consolidated financial statements.

The University receives significant financial assistance from the federal government including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of indirect costs is recorded at predetermined rates negotiated with the federal government. Indirect cost recovery rates from nonfederal sources may vary. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant or contract agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants and contracts, and the University's indirect cost rate, are subject to financial and compliance reviews and audits by the grantors. Funds received through federal sources are subject to audit each year in accordance with the Office of Management and Budget's Uniform Guidance. In management's opinion, the likelihood of a material adverse outcome on the University's financial position from those reviews and audits is remote.

As part of ongoing operations, the University enters into utility contracts to secure electric and natural gas rates. These contracts are with various utility suppliers and some of the contracts cover multiple years. The University monitors the energy markets on an ongoing basis and will make commitments on new rates if deemed in the best interest of the University.

The University conducts a review of contracts and agreements that may contain guarantees, including loan guarantees such as standby letters of credit and indemnifications. In certain contracts, the University agrees to indemnify a third-party service provider under certain circumstances. Pursuant to its bylaws, the University provides indemnification to directors, officers, and, in some cases, employees and agents against certain liabilities incurred as a result of service provided on behalf of or at the request of the University. The terms of indemnity vary from agreement to agreement, and the amount of indemnification, if any, cannot be reasonably determined.

NOTE 16: SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 16, 2019, the date on which the consolidated financial statements were issued and determined that there were no subsequent events requiring additional disclosure or adjustment to the consolidated financial statements.

Membership of the Board of Trustees Fiscal Year 2019

The consolidated financial statements have been reviewed and approved by the University's Audit Committee. The Audit Committee is comprised of outside directors having requisite financial expertise and meets regularly with University management and both internal and external auditors to review internal accounting controls, audit issues, and financial reporting matters. The Committee meets with the external auditors in private sessions and is also responsible for approving the independent auditing firm retained each year. Nonvoting representatives on the Committee include members of the University's administration as well as student, faculty, and staff representatives.