

UNIVERSITY OF PITTSBURGH



FINANCIAL REPORT FISCAL YEAR 2016



KPMG LLP
BNY Mellon Center
Suite 3400
500 Grant Street
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 (the University), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, 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, 2016 and 2015, 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.

KPMG LLP

Pittsburgh, Pennsylvania
September 22, 2016

CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSITY OF PITTSBURGH
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2016 AND 2015
(in thousands of dollars)

	2016	2015
ASSETS:		
Cash and cash equivalents <i>(Notes 1 and 5)</i>	\$ 6,400	\$ 49,582
Operating investments <i>(Notes 4 and 5)</i>	558,801	569,806
Inventories and deferred charges	20,984	20,546
Accounts and notes receivable, net <i>(Note 2)</i>	188,277	143,498
Contributions receivable, net <i>(Note 3)</i>	31,935	34,545
Student loans receivable, net	47,611	45,852
Deposits of bond proceeds <i>(Notes 1 and 5)</i>	6,598	19,291
Foundation assets <i>(Note 1)</i>	26,351	26,419
Endowment investments <i>(Notes 4 and 5)</i>	3,546,458	3,610,395
Endowed funds held by third parties <i>(Note 5)</i>	22,079	23,140
Property, plant, and equipment, net <i>(Note 6)</i>	1,774,065	1,785,749
TOTAL ASSETS	\$ 6,229,559	\$ 6,328,823
LIABILITIES:		
Accounts payable and accrued expenses	\$ 95,212	\$ 98,125
Accrued payroll and related liabilities	74,796	72,507
Deferred student and other revenue	50,801	45,252
Advanced receipt of grant funds	62,689	60,596
Refundable U.S. government student loans	33,897	33,647
Other liabilities <i>(Notes 5 and 8)</i>	148,811	116,071
Pension and postretirement obligations <i>(Note 9)</i>	589,385	479,334
Conditional asset remediation obligation <i>(Note 6)</i>	37,346	41,219
Bonds and notes payable <i>(Note 7)</i>	948,949	981,632
TOTAL LIABILITIES	2,041,886	1,928,383
NET ASSETS:		
Unrestricted <i>(Notes 1 and 10)</i>	2,764,269	2,911,882
Temporarily restricted <i>(Notes 1 and 10)</i>	714,738	804,388
Permanently restricted <i>(Notes 1 and 10)</i>	708,666	684,170
TOTAL NET ASSETS	4,187,673	4,400,440
TOTAL LIABILITIES AND NET ASSETS	\$ 6,229,559	\$ 6,328,823

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

CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
COMPARED TO SUMMARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2015
(in thousands of dollars)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
OPERATING REVENUES:					
Tuition and fees	\$ 764,499	\$ -	\$ -	\$ 764,499	\$ 751,766
Tuition discounts	(176,412)	-	-	(176,412)	(171,133)
Net tuition and fees	588,087	-	-	588,087	580,633
Commonwealth appropriation	154,335	-	-	154,335	147,392
Commonwealth construction grants	21,289	-	-	21,289	37,513
Grants and contracts	726,531	-	-	726,531	713,892
Contributions for operations	35,158	18,853	-	54,011	45,057
Investment income – operating investments	6,080	-	-	6,080	5,401
Endowment distributions for operations	118,245	-	-	118,245	101,886
Sales and services, educational and other	186,864	-	-	186,864	185,224
Sales and services, auxiliary	150,533	-	-	150,533	146,789
Rental revenue	18,351	-	-	18,351	18,212
Other	82,463	-	-	82,463	78,916
Net assets released from restrictions	13,753	(13,753)	-	-	-
Total operating revenues	2,101,689	5,100	-	2,106,789	2,060,915
OPERATING EXPENSES:					
Salaries and wages	906,494	-	-	906,494	883,682
Fringe benefits	273,652	-	-	273,652	268,999
Total compensation	1,180,146	-	-	1,180,146	1,152,681
Supplies	108,607	-	-	108,607	107,841
Business and professional	354,292	-	-	354,292	336,643
Utilities	46,658	-	-	46,658	48,974
Maintenance and facilities	48,678	-	-	48,678	46,410
Depreciation	175,135	-	-	175,135	168,539
Interest	42,212	-	-	42,212	43,124
Other	46,665	-	-	46,665	56,493
Total operating expenses (Note 11)	2,002,393	-	-	2,002,393	1,960,705
Change in net assets from operating activities	99,296	5,100	-	104,396	100,210
OTHER ACTIVITIES:					
Investment (losses) gains, net of endowment distributions for operations	(115,864)	(94,750)	2,373	(208,241)	(75,156)
Contributions for endowment	-	-	22,123	22,123	33,902
Change in fair value of interest rate swaps	(34,522)	-	-	(34,522)	(7,315)
Nonperiodic changes in benefit plans (Note 9)	(96,523)	-	-	(96,523)	(24,540)
Total other activities	(246,909)	(94,750)	24,496	(317,163)	(73,109)
CHANGE IN NET ASSETS	(147,613)	(89,650)	24,496	(212,767)	27,101
NET ASSETS, BEGINNING OF YEAR	2,911,882	804,388	684,170	4,400,440	4,373,339
NET ASSETS, END OF YEAR	\$ 2,764,269	\$ 714,738	\$ 708,666	\$ 4,187,673	\$ 4,400,440

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, 2015
(in thousands of dollars)

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES:				
Tuition and fees	\$ 751,766	\$ -	\$ -	\$ 751,766
Tuition discounts	(171,133)	-	-	(171,133)
Net tuition and fees	580,633	-	-	580,633
Commonwealth appropriation	147,392	-	-	147,392
Commonwealth construction grants	37,513	-	-	37,513
Grants and contracts	713,892	-	-	713,892
Contributions for operations	33,537	11,520	-	45,057
Investment income – operating investments	5,401	-	-	5,401
Endowment distributions for operations	101,886	-	-	101,886
Sales and services, educational and other	185,224	-	-	185,224
Sales and services, auxiliary	146,789	-	-	146,789
Rental revenue	18,212	-	-	18,212
Other	78,916	-	-	78,916
Net assets released from restrictions	12,521	(12,521)	-	-
Total operating revenues	2,061,916	(1,001)	-	2,060,915
OPERATING EXPENSES:				
Salaries and wages	883,682	-	-	883,682
Fringe benefits	268,999	-	-	268,999
Total compensation	1,152,681	-	-	1,152,681
Supplies	107,841	-	-	107,841
Business and professional	336,643	-	-	336,643
Utilities	48,974	-	-	48,974
Maintenance and facilities	46,410	-	-	46,410
Depreciation	168,539	-	-	168,539
Interest	43,124	-	-	43,124
Other	56,493	-	-	56,493
Total operating expenses (Note 11)	1,960,705	-	-	1,960,705
Change in net assets from operating activities	101,211	(1,001)	-	100,210
OTHER ACTIVITIES:				
Investment (losses) gains, net of endowment distributions for operations	(34,030)	(43,237)	2,111	(75,156)
Contributions for endowment	-	-	33,902	33,902
Change in fair value of interest rate swaps	(7,315)	-	-	(7,315)
Nonperiodic changes in benefit plans (Note 9)	(24,540)	-	-	(24,540)
Total other activities	(65,885)	(43,237)	36,013	(73,109)
CHANGE IN NET ASSETS	35,326	(44,238)	36,013	27,101
NET ASSETS, BEGINNING OF YEAR	2,876,556	848,626	648,157	4,373,339
NET ASSETS, END OF YEAR	\$ 2,911,882	\$ 804,388	\$ 684,170	\$ 4,400,440

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

CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(in thousands of dollars)

	2016	2015
CASH AND EQUIVALENTS:		
End of year	\$ 6,400	\$ 49,582
Beginning of year	49,582	60,831
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (43,182)	\$ (11,249)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (212,767)	\$ 27,101
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	175,135	168,539
Nonperiodic changes in benefit plans	96,523	24,540
Net bond premium amortization	(4,163)	(4,802)
Loss on disposal of plant assets	1,254	1,926
Investment losses (gains)	110,426	(3,546)
Change in fair value of interest rate swaps	34,522	7,315
Contributions restricted for long-term investment	(46,431)	(71,539)
Changes in operating assets and liabilities:		
Accounts, notes, contributions, and loans receivable, net	(56,695)	9,222
Other assets	(438)	(1,288)
Accounts payable and accrued expenses	(289)	7,544
Pension and postretirement obligations	13,528	10,769
Conditional asset remediation obligation	(3,873)	290
Other liabilities	507	2,937
Government student loans and deferred revenue	7,892	(191)
Net cash provided by operating activities	115,131	178,817
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expended for property, plant, and equipment - University	(143,416)	(123,366)
Expended for property, plant, and equipment - commonwealth	(21,289)	(37,513)
Change in accounts payable for property, plant, and equipment	(2,624)	(10,371)
Purchases/sales of operating investments, net	12,067	(33,204)
Purchases of endowment investments	(1,646,384)	(1,604,549)
Proceeds from sales/maturities of endowment investments	1,600,290	1,515,111
Change in endowed funds held by third parties, excluding gains	(396)	(878)
Change in foundation assets	68	(413)
Net cash used for investing activities	(201,684)	(295,183)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayment of debt	(130,500)	(155,000)
Proceeds from issuance of debt	101,980	198,290
Change in deposits of bond and note proceeds	12,693	(19,291)
Contributions restricted for long-term investment	59,198	81,118
Net cash provided by financing activities	43,371	105,117
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (43,182)	\$ (11,249)
Supplemental disclosure of cash flow information:		
Cash paid for interest (excluding fees)	\$ 46,194	\$ 48,052
Noncash investing activity for property, plant, and equipment-accounts payable	\$ 20,806	\$ 23,430

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 6,200 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.

As a state-related institution, the University receives an annual operating and capital appropriation from the commonwealth. The appropriation results from the commonwealth's annual budget process. 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. The appropriation from the commonwealth was \$154.3 million in 2016 and \$147.4 million in 2015. In addition to the annual appropriation, the commonwealth also funds certain capital projects in support of the University's mission. Amounts funded by the commonwealth for capital projects were \$21.3 million in 2016 and \$37.5 million in 2015.

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 (losses) gains, net of endowment distributions for operations; contributions for endowment; changes in fair value of interest rate swaps; and nonperiodic changes in pension and postretirement benefit plans. Endowment distributions for operations represent endowment income distributions not reinvested in the endowment (see Note 10).

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).

In accordance with GAAP, the University's net assets have been classified as unrestricted, temporarily restricted, or permanently restricted based upon the

existence or absence of donor-imposed restrictions. Unrestricted net assets are not subject to donor-imposed restrictions and are used for general operating purposes of the University. This class of net assets also includes certain contributions and endowment earnings whose donor-imposed restrictions have been met within the fiscal year. Temporarily restricted net assets are subject to certain time or purpose restrictions by the donor. Upon satisfaction of these restrictions, the net assets are transferred to unrestricted. Amounts released from restrictions in 2016 and 2015 relate primarily to cash collections on pledges, where purpose restrictions had already been met. Temporarily restricted net assets at June 30, 2016 and 2015 consist of endowment balances (\$686.1 million and \$781.0 million, respectively); the net present value of temporarily restricted contributions and unconditional pledges (\$23.7 million and \$18.1 million, respectively); and split-interest agreements (\$4.9 million and \$5.3 million, respectively). Permanently restricted net assets are those subject to permanent donor-imposed restrictions and at June 30, 2016 and 2015 consist of endowment balances (\$684.9 million and \$654.0 million, respectively); the net present value of permanently restricted contributions and unconditional pledges (\$10.7 million and \$17.1 million, respectively); and private student loan funds (\$13.1 million in both 2016 and 2015).

Donor-restricted endowed contributions require that the original corpus of the contributions be maintained in perpetuity. The distributions from earnings generated by these contributions may be either expended or reinvested in the endowment, in accordance with donor restrictions and endowment contribution and spending policies (see Note 10).

Estimates

The 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

Revenue for programs or activities to be conducted in future periods such as student tuition and room and board are classified as deferred revenue. Revenue for these activities is recognized as services are provided.

Advanced receipt of exchange transactions such as grants and contracts are also classified as deferred revenue, with revenue being recognized as funds are expended and sponsored programs are executed.

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 attributable to institutional funds in 2016 and 2015 were \$152.1 million and \$147.3 million, respectively. Tuition discounts attributable to contributions, endowment distributions, and grant activities were \$24.3 million and \$23.8 million in 2016 and 2015, respectively.

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 within a seven-day period. 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.

Allowance for Doubtful Accounts

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, historical experience, and other currently available evidence. Receivables are written off when management determines they will not be collected.

Contributions

The University records at fair value unconditional pledges (which are agreements with donors involving non-reciprocal transfers of cash or other assets) as either temporarily restricted or permanently restricted contributions 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 unrestricted contributions.

Contributions receivable (classified as Level 3 in the fair value hierarchy) 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.

Bequests are considered to be intentions to give and do not fall within the definition of an unconditional pledge, and hence, are not recognized in the consolidated financial statements.

Deposits of Bond Proceeds

Deposits of bond proceeds consist of unspent funds, which will be used for certain capital projects or for repayment of certain debt obligations. These funds are invested in cash, cash equivalents, U.S. Treasury instruments, and other high-quality, liquid securities and are reported on the Consolidated Balance Sheets at fair value.

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 is based upon quoted 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 distressed debt and hedging strategies, including event-driven hedging strategies, such as merger or credit arbitrage, and value-driven hedging strategies, such as long/short, market neutral, 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 applicable withholding taxes on the accrual basis of accounting.

Fair Value Measurements

As of June 30, 2016 and 2015, the carrying values of the University's inventories and deferred charges, accounts and notes receivable, contributions receivable, accounts payable, accrued expenses, and deferred student and other revenue approximate their fair values because of the terms and relatively short maturities. An estimate of the fair value of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the United States government or its designees.

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 prices in active markets for identical assets or liabilities that are available at the measurement date.
- Level 2 – Inputs other than quoted 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.

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 8).

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. Other liabilities include \$11.5 million and \$10.4 million at June 30, 2016 and 2015, respectively, for split-interest agreements.

Property, Plant, and Equipment

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 \$6.3 million and \$6.7 million has been recorded at June 30, 2016 and 2015, 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 certain other activities, including workers' compensation, unemployment compensation, and 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 \$10.5 million and \$8.6 million at June 30, 2016 and 2015, respectively, and are included in accrued payroll and related liabilities on the Consolidated Balance Sheets.

Grants and Contracts

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 2016 and 2015 was \$726.5 million and \$713.9 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 receiving funding after 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. Revenue from sponsored awards is recognized as the related expenses are incurred. There is no assurance that sponsored awards will continue to be made at current levels.

The University incurs both direct and indirect costs in the conduct of its sponsored activity. Recovery of indirect costs through federal awards is based upon predetermined rates negotiated with the Department of Health and Human Services. Indirect cost recovery rates from nonfederal sources may vary. Funds received through federal sources are subject to audit each year in accordance with the Office of Management and Budget's Uniform Guidance.

Government Loan Funds

U.S. government-sponsored student loan funds 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 permanently restricted net assets since such funds operate on a revolving fund basis with principal and interest payments remaining in the fund for future lending.

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 2016 or 2015.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (NFPs) (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The ASU is effective for the University for fiscal years beginning after December 15, 2017, and early adoption is permitted. The ASU reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; requires all NFPs to present expenses by their functional and

natural classifications in one location in the financial statements; and requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date. The University is currently evaluating the impact this ASU will have on the consolidated financial statements and related disclosures.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU is effective for reporting periods beginning after December 15, 2018, and early adoption is permitted. The ASU 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 evaluating the impact this ASU will have on the consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01 amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU exempts all nonpublic business entities from disclosing fair value information for financial instruments measured at amortized cost. The University has adopted the early application guidance for this ASU as of June 30, 2016 and modified the related disclosures to conform.

Effective in 2016, the University retroactively adopted the provisions of ASU No. 2015-10, *Technical Corrections and Improvements*. This ASU clarified one aspect of the definition of readily determinable fair value (RDFV), thereby affecting the measurement of and disclosure about certain equity investments. During 2016, management evaluated its investments in the pension plan, historically measured using NAV as a practical expedient in structures with characteristics similar to a mutual fund, as to whether they have an RDFV. Certain investments aggregating \$93.9 million, previously presented using NAV as a practical expedient as of June 30, 2015 and excluded from the fair value hierarchy, were determined to have an RDFV and have been classified as Level 1 investments, consistent with the June 30, 2016 presentation.

NOTE 2: ACCOUNTS AND NOTES RECEIVABLE, NET

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

	2016	2015
	<i>(in thousands of dollars)</i>	
Sponsored grant receivables, net	\$ 105,398	\$ 86,250
Hospitals and affiliated organizations receivables, net	40,580	18,405
Commonwealth appropriation receivable	11,143	-
Student receivables, net	9,173	10,447
Plant construction receivables due from commonwealth	9,090	15,433
Interest income receivables	1,694	1,512
Other receivables, net	11,199	11,451
Total accounts and notes receivable, net	\$ 188,277	\$ 143,498

NOTE 3: CONTRIBUTIONS RECEIVABLE, NET

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

	2016	2015
	<i>(in thousands of dollars)</i>	
Amounts due in:		
Less than one year	\$ 15,599	\$ 16,992
One to five years	16,558	17,754
Greater than five years	2,153	2,248
Gross contributions receivable	34,310	36,994
Less:		
Allowance for uncollectible pledges	(1,654)	(1,414)
Unamortized discounts	(721)	(1,035)
Total contributions receivable, net	\$ 31,935	\$ 34,545

At June 30, 2016 and 2015, the five largest outstanding pledge balances represented 37% and 39%, 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 \$207.9 million and \$199.6 million at June 30, 2016 and 2015, respectively. These bequests and conditional pledges are not included in the consolidated financial statements.

NOTE 4: ENDOWMENT AND OPERATING INVESTMENTS

Investments at June 30 consist of the following:

	2016	2015
	<i>(in thousands of dollars)</i>	
Endowment investments:		
Pooled	\$ 3,513,665	\$ 3,577,793
Nonpooled	32,793	32,602
Subtotal endowment investments	3,546,458	3,610,395
Operating investments <i>(Note 1)</i>	558,801	569,806
Total endowment and operating investments	\$ 4,105,259	\$ 4,180,201
Composition of endowment investments:		
Cash and cash equivalents	\$ 65,204	\$ 98,908
Domestic equities	554,918	527,552
International equities	715,179	742,036
U.S. government and government agencies’ securities, bank acceptances and certificates, and commercial paper	173,468	170,082
Corporate bonds and other obligations	143,856	179,019
Alternative investment funds and partnerships:		
Marketable alternatives	679,765	740,625
Nonmarketable alternatives	624,905	622,515
Real assets	589,163	529,658
Total endowment investments	\$ 3,546,458	\$ 3,610,395
Composition of operating investments:		
U.S. government and government agencies’ securities, repurchase agreements, and commercial paper	\$ 347,117	\$ 358,130
Corporate bonds and other obligations	192,190	192,367
Other	19,494	19,309
Total operating investments	\$ 558,801	\$ 569,806

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 (see Note 10).

The following table summarizes the University's investments at June 30, 2016 and 2015, for which NAV was used as a practical expedient to estimate fair value:

Asset Class	Fair Value Determined Using NAV		Unfunded Commitments at June 30, 2016	Redemption Frequency	Redemption Notice Period
	2016	2015			
<i>(in thousands of dollars)</i>					
International equities	\$ 108,485	\$ 126,968	\$ -	Quarterly	60-120 days
Marketable alternatives:					
Redeemable within one year	483,100	523,206	-	90-365 days	30-180 days
Redeemable beyond one year	156,848	176,352	-	1-3 years	30-60 days
Nonredeemable	39,817	41,067	79	NA	NA
Total marketable alternatives	679,765	740,625	79		
Nonmarketable alternatives	624,905	622,515	347,547	NA	NA
Real assets:					
Redeemable	65,811	88,882	-	Monthly	10 days
Nonredeemable	523,352	440,776	267,989	NA	NA
Total real assets	589,163	529,658	267,989		
Total	\$ 2,002,318	\$ 2,019,766	\$ 615,615		

Descriptions follow for each of the investments set forth in the table above:

International Equities

A portion of the University's investments in emerging market equities includes an interest in one fund that holds 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 5: FAIR VALUE MEASUREMENTS

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, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
<i>(in thousands of dollars)</i>				
Assets				
Cash and cash equivalents	\$ 4,057	\$ 2,343	\$ -	\$ 6,400
Endowment investments:				
Cash and cash equivalents	35,539	29,665	-	65,204
Domestic equities	541,057	13,861	-	554,918
International equities	598,898	-	7,796	606,694
U.S. government, corporate bonds, and other obligations	257,724	55,820	3,780	317,324
Subtotal endowment investments ⁽¹⁾	1,433,218	99,346	11,576	1,544,140
Operating investments:				
U.S. government, corporate bonds, and other obligations	441,045	98,262	-	539,307
Other	1,397	-	18,097	19,494
Deposits of bond proceeds	5,806	792	-	6,598
Endowed funds held by third parties	-	-	22,079	22,079
Total assets	\$ 1,885,523	\$ 200,743	\$ 51,752	\$ 2,138,018
Liabilities				
Interest rate swaps	\$ -	\$ 111,141	\$ -	\$ 111,141
2015				
	Level 1	Level 2	Level 3	Total
<i>(in thousands of dollars)</i>				
Assets				
Cash and cash equivalents	\$ 47,339	\$ 2,243	\$ -	\$ 49,582
Endowment investments:				
Cash and cash equivalents	73,686	25,222	-	98,908
Domestic equities	519,442	8,110	-	527,552
International equities	602,220	-	12,848	615,068
U.S. government, corporate bonds, and other obligations	262,257	83,064	3,780	349,101
Subtotal endowment investments ⁽¹⁾	1,457,605	116,396	16,628	1,590,629
Operating investments:				
U.S. government, corporate bonds, and other obligations	442,095	108,402	-	550,497
Other	1,123	-	18,186	19,309
Deposits of bond proceeds	18,344	947	-	19,291
Endowed funds held by third parties	-	-	23,140	23,140
Total assets	\$ 1,966,506	\$ 227,988	\$ 57,954	\$ 2,252,448
Liabilities				
Interest rate swaps	\$ -	\$ 76,619	\$ -	\$ 76,619

⁽¹⁾ The subtotal of endowment investments within the fair value tables above exclude investments of \$2,002,318 and \$2,019,766 as of June 30, 2016 and 2015, respectively, which are measured at NAV and are not classified in the fair value hierarchy (see Note 4).

The following table summarizes the change in the Level 3 activity for the years ended June 30, 2016 and 2015:

	International Equities	U.S. Government Corporate and Other	Other and Endowed Funds Held by Third Parties	Total
	<i>(in thousands of dollars)</i>			
Balance - June 30, 2014	\$ 12,262	\$ 3,927	\$ 40,286	\$ 56,475
Capital calls/purchases	3,946	-	1,348	5,294
Distributions/sales	(7,247)	(147)	(1,439)	(8,833)
Realized gains	1,312	-	-	1,312
Unrealized gains	2,575	-	1,131	3,706
Balance - June 30, 2015	12,848	3,780	41,326	57,954
Capital calls/purchases	3,485	-	894	4,379
Distributions/sales	(6,499)	-	(495)	(6,994)
Realized gains	263	-	-	263
Unrealized losses	(2,301)	-	(1,549)	(3,850)
Balance - June 30, 2016	\$ 7,796	\$ 3,780	\$ 40,176	\$ 51,752

Realized and unrealized gains (losses) for Level 3 activity are reported in other activities in the Consolidated Statements of Activities. Unrealized losses related to investments held at June 30, 2016 were \$2.8 million. Unrealized gains related to investments held at June 30, 2015 were \$3.4 million.

There were no transfers of investments between levels in 2016 or 2015.

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT, NET

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

	2016	2015
	<i>(in thousands of dollars)</i>	
Land	\$ 61,546	\$ 51,321
Buildings and improvements	3,048,432	2,919,391
Equipment	750,761	714,636
Library books	276,837	267,415
Works of art, historical treasures, and similar assets	20,838	18,316
Construction in progress	93,484	135,127
Subtotal	4,251,898	4,106,206
Less: Accumulated depreciation	(2,477,833)	(2,320,457)
Total property, plant, and equipment, net	\$ 1,774,065	\$ 1,785,749

The amount capitalized in property, plant, and equipment related to expenditures funded by the commonwealth on behalf of the University totaled \$707.3 million and \$657.6 million at June 30, 2016 and 2015, respectively. The net book value of these items was \$335.5 million and \$311.0 million at June 30, 2016 and 2015, 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 retirement obligations recognized at June 30, 2016 and 2015 was \$37.3 million and \$41.2 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: BONDS AND NOTES PAYABLE

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

	Range of Years Remaining to Maturity	2016 Effective Interest Rates	Outstanding Principal	
			<i>(in thousands of dollars)</i>	
			2016	2015
Variable-rate bonds:				
Series 2014-B1/B2 Bonds	9-19	0.05%-0.50%	\$ 46,000	\$ 46,000
Series 2007-B Bonds	24-25	0.04%-0.54%	44,621	44,621
Series 2005-A Bonds	21-23	0.06%-0.59%	40,000	40,000
Series 2005-B Bonds	15-22	0.04%-0.60%	45,000	45,000
Series 2005-C Bonds	16-19	0.07%-0.62%	30,000	30,000
Series 2002-B Bonds	15-20	0.06%-0.50%	15,000	15,000
Total variable-rate bonds			220,621	220,621
Fixed-rate bonds and notes:				
Series 2014-A Bonds	20-28	3.51%-3.65%	49,000	49,000
Series 2009-A/B Bonds	3 mos.-15	3.70%-5.10%	312,640	338,140
Series 2007-B Bonds	7-12	4.28%-4.69%	60,000	60,000
Series 2005-A Bonds	12-14	4.69%-4.83%	35,000	35,000
Series 2002-A Bonds	3 mos.-7	2.88%-4.31%	25,000	30,000
Series 2002-B Bonds	10-11	4.53%-4.74%	14,500	14,500
Series 2000-A/B/C Bonds	8-19	4.37%-5.07%	124,400	124,400
Series 2015 PANTHER Notes, due August 2, 2016		0.30%	100,000	-
Series 2014 PANTHER Notes, due July 22, 2015		0.12%	-	100,000
Noninterest-bearing promissory note			171	171
Total fixed-rate bonds and notes			720,711	751,211
Unamortized net premium			12,125	14,542
Debt issuance costs			(4,508)	(4,742)
Total bonds and notes payable			\$ 948,949	\$ 981,632

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

2017	\$ 127.4
2018	\$ 26.4
2019	\$ 35.0
2020	\$ 35.0
2021	\$ 35.0

The foregoing principal payments do not include \$220.6 million of variable-rate demand bonds (VRDBs) in commercial paper (CP) mode, all of which have final maturity dates between 2031 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 each rate period.

Liquidity support for the \$220.6 million of outstanding VRDBs in CP mode is provided by the University. In the event the University receives notice of an optional tender on its VRDBs in CP mode, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the tendered bonds. To provide a secondary source of liquidity for this type of event, the University entered into a \$100.0 million unsecured standby liquidity agreement with a financial institution that matures in June 2017. Since the October 2009 effective date of the liquidity agreement, no draws have occurred.

On September 18, 2014, the University issued \$95.0 million in University Capital Project Bonds (2014 Bonds). The 2014 Bonds consist of \$49.0 million of Series A Bonds (fixed-rate bonds) and \$46.0 million of Series B1/B2 Bonds (variable-rate bonds issued in CP mode). The 2014 Bonds have a final maturity date of 2044.

The 2015 Pitt Asset Notes - Tax Exempt Higher Education Series (PANTHERS of 2015) were issued in July 2015 in the amount of \$100.0 million and were repaid on August 2, 2016.

In July 2016, the University issued its PANTHERS of 2016 in the amount of \$70.0 million. The entire amount was used to partially refund the \$100.0 million of PANTHERS of 2015 that matured on August 2, 2016. The PANTHERS of 2016 mature on August 15, 2017.

The University had three general unsecured credit facilities aggregating \$75.0 million at June 30, 2016. No draws were made under the facilities during 2016 or 2015. Although each of the three credit facilities carry an expiry date of October 25, 2016, it is management's intention to extend each facility for another 364-day term.

Interest costs incurred in 2016 and 2015 were \$42.2 million and \$43.1 million, respectively. Included in these amounts are net swap payments and capitalized interest associated with various construction projects. Capitalized interest for 2016 and 2015 was \$0.8 million and \$1.4 million, respectively.

NOTE 8: 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. In the case of exchange-traded derivatives, the counterparty is the exchange itself. In the case of over-the-counter derivatives, the counterparty is typically a financial institution. 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 \$51.2 million and \$53.7 million at June 30, 2016 and 2015, respectively. When the University uses futures to replicate an investment position, it has opted to do so on a fully collateralized basis. 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. The associated unrealized gain (loss) on these assets was \$1.4 million and \$(0.2) million as of June 30, 2016 and 2015, 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 \$111.1 million and \$76.6 million at June 30, 2016 and 2015, respectively, and are included in other liabilities on the Consolidated Balance Sheets (see Note 5). 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 unrealized losses of \$34.5 million in 2016 and \$7.3 million in 2015 due to changes in fair value of the swaps.

The aggregate notional amount of the swap agreements associated with University debt was \$365.3 million and \$380.3 million at June 30, 2016 and 2015, 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 2016 or 2015 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 9: 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 participation in the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) and in investment funds of the Vanguard Group. The plan is fully funded and 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 2016 and 2015 were \$76.2 million and \$74.7 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 participation effective November 3, 2015. If employees have an employment commencement date on or after November 3, 2015, they will not be eligible to participate in this plan. 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 2016 and 2015 were \$10.9 million and \$9.8 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 quasi-endowment fund, which is managed within the University's pooled endowment investments (see Notes 4 and 10). The fair value of these investments at June 30, 2016 and 2015 was \$354.3 million and \$353.5 million, respectively, and is included in endowment investments on the Consolidated Balance Sheets. Although the University has established this quasi-endowment for the postretirement plan, payments to beneficiaries of this plan are currently made through nonendowed 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.

In 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law. The Health Care Acts include several provisions that are included in the measurement of the postretirement benefit obligation.

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, 2016 and 2015 is summarized in the table below:

	Defined-Benefit Plan		Postretirement Plan	
	2016	2015	2016	2015
	<i>(in thousands of dollars)</i>			
Net periodic benefit cost:				
Service cost	\$ 6,255	\$ 5,660	\$ 15,276	\$ 15,686
Interest cost	5,605	4,737	21,431	18,572
Expected return on plan assets	(6,990)	(6,232)	-	-
Actuarial loss	1,113	643	2,897	2,330
Amortization of prior service credit	(52)	(52)	(3,964)	(3,964)
Net periodic benefit cost	\$ 5,931	\$ 4,756	\$ 35,640	\$ 32,624
Funded status:				
Benefit obligation at beginning of year	\$ 117,822	\$ 106,204	\$ 455,755	\$ 421,842
Service cost	6,255	5,660	15,276	15,686
Interest cost	5,605	4,737	21,431	18,572
Actuarial loss	22,722	2,186	66,435	16,510
Benefits paid	(1,138)	(965)	(17,112)	(16,855)
Benefit obligation at end of year	\$ 151,266	\$ 117,822	\$ 541,785	\$ 455,755
Fair value of plan assets at beginning of year	\$ 94,243	\$ 84,021		
Actual return on plan assets	(370)	1,432		
Actual plan contributions	10,931	9,755		
Benefits paid	(1,138)	(965)		
Fair value of plan assets at end of year	\$ 103,666	\$ 94,243		
Funded status – liability recognized on Consolidated Balance Sheets:				
Pension and postretirement obligations	\$ (47,600)	\$ (23,579)	\$ (541,785)	\$ (455,755)
Accumulated benefit obligation	\$ 144,496	\$ 112,680		

Estimated 2017 employer contribution to the defined-benefit plan:
(in thousands of dollars) \$ 10,004

	Defined-Benefit Plan		Postretirement Plan	
	2016	2015	2016	2015
Weighted-average assumptions used to determine the benefit obligation (liability) at June 30:				
Discount rate	3.9%	4.8%	3.8%	4.8%
Rate of compensation increase	3.0%	3.0%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.0%	7.0%
Initial trend – post-age 65 retirees	-	-	7.0%	6.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2024	2023

Weighted-average assumptions used to determine the net periodic cost (expense) for the years ended June 30:				
Discount rate	4.8%	4.5%	4.8%	4.5%
Rate of compensation increase	3.0%	3.0%	-	-
Expected long-term return on plan assets	7.5%	7.5%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.0%	7.0%
Initial trend – post-age 65 retirees	-	-	6.0%	5.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2023	2020

Estimated future benefit payments:	Defined-Benefit	Postretirement
	Plan	Plan
<i>(in thousands of dollars)</i>		
2017	\$ 2,454	\$ 17,037
2018	\$ 2,739	\$ 19,233
2019	\$ 3,004	\$ 20,425
2020	\$ 3,335	\$ 21,885
2021	\$ 3,727	\$ 23,425
2022 - 2026	\$ 25,191	\$ 139,280

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

	Increase		Decrease	
	Revised Amount	Percent Change	Revised Amount	Percent Change
<i>(in millions of dollars)</i>				
Service and interest cost (medical component only)	\$ 36.2	5.8%	\$ 29.8	12.9%
Total periodic benefit cost	\$ 39.1	9.6%	\$ 28.7	19.4%
Benefit obligation for health care benefits	\$ 526.5	5.8%	\$ 445.9	10.4%
Total benefit obligation	\$ 570.5	5.3%	\$ 489.8	9.6%

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, 2016 and 2015 was \$103.7 million and \$94.2 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 investments are determined using NAV per share available at the measurement date. 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:

Asset class	Target Allocation	2016	2015
		<i>(in thousands of dollars)</i>	
Equity securities:			
Stock index and small cap	35%	\$ 36,616	\$ 32,800
International	35%	35,438	33,326
Debt securities	30%	31,312	27,793
Cash and cash equivalents	-	300	324
Total pension plan assets		\$ 103,666	\$ 94,243

NOTE 10: 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. The endowment income distribution amounts for both 2016 and 2015 were 4.25% of the endowment’s three-year average fair value.

Employing the total return approach, the University records the original value of an endowed contribution as a permanently restricted asset, along with any endowment income distributions that are reinvested in the endowment. Nonendowed funds that lack third-party donor restrictions but function as endowments (quasi-endowments) are classified as unrestricted net assets. Gains and losses attributable to donor-restricted endowed funds are recorded as temporarily restricted net assets, whereas gains and losses attributable to quasi-endowment funds are recorded as unrestricted net assets.

The University’s endowment net assets at June 30 were as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(in thousands of dollars)</i>			
Donor-restricted endowment funds	\$ -	\$ 686,118	\$ 684,922	\$ 1,371,040
Quasi-endowment funds	2,163,439	-	-	2,163,439
Total endowment net assets	\$ 2,163,439	\$ 686,118	\$ 684,922	\$ 3,534,479
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(in thousands of dollars)</i>			
Donor-restricted endowment funds	\$ -	\$ 780,998	\$ 653,935	\$ 1,434,933
Quasi-endowment funds	2,164,556	-	-	2,164,556
Total endowment net assets	\$ 2,164,556	\$ 780,998	\$ 653,935	\$ 3,599,489

The change in endowment net assets for the years ended June 30, 2016 and 2015 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(in thousands of dollars)</i>			
Endowment net assets – June 30, 2014	\$ 2,056,794	\$ 824,655	\$ 620,510	\$ 3,501,959
Endowment return:				
Endowment earnings	21,714	-	1,469	23,183
Gains (losses)	48,786	(43,657)	438	5,567
Total endowment return	70,500	(43,657)	1,907	28,750
Contributions	334	-	31,518	31,852
Distributions for operations	(101,886)	-	-	(101,886)
Net transfers	138,814	-	-	138,814
Endowment net assets – June 30, 2015	2,164,556	780,998	653,935	3,599,489
Endowment return:				
Endowment earnings	14,978	-	2,237	17,215
(Losses)	(15,270)	(94,880)	(62)	(110,212)
Total endowment return	(292)	(94,880)	2,175	(92,997)
Contributions	173	-	28,812	28,985
Distributions for operations	(118,245)	-	-	(118,245)
Net transfers	117,247	-	-	117,247
Endowment net assets – June 30, 2016	\$ 2,163,439	\$ 686,118	\$ 684,922	\$ 3,534,479

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 11: 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:

	2016	2015
	<i>(in thousands of dollars)</i>	
Instruction	\$ 566,786	\$ 554,616
Research	676,069	655,546
Public service	85,449	86,489
Academic support	193,807	191,288
Libraries	47,240	48,979
Student services	150,751	145,153
Institutional support	139,898	137,527
Auxiliary enterprises	142,393	141,107
Total functional expenses	\$ 2,002,393	\$ 1,960,705

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

NOTE 12: 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. Transactions with all related entities are conducted in the ordinary course of business and are discussed below.

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. Reimbursements from UPMC, UPP, and affiliated hospitals for clinical compensation and other costs totaled \$137.6 million and \$138.9 million in 2016 and 2015, respectively.

In 1998, the University signed a 10-year 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 \$12.5 million annually in funding for the SOM. UPMC also provides additional funding up to \$2.5 million annually on a matching basis. The match is on a one-to-two basis with UPMC matching \$1 for every \$2 provided by the University to support health sciences programs. The University has received this match each year since the inception of the agreement. This agreement was amended in 2007 under essentially the same terms, except for a provision to provide an additional \$10.0 million per year in 2007, increased annually by \$0.5 million from

2008 through 2016. The University received \$29.5 million and \$29.0 million (including the annual match) in 2016 and 2015, respectively. Effective July 1, 2014, the term of the agreement was extended through June 30, 2018. These amounts are reported as other revenue in the Consolidated Statements of Activities.

The UPMC agreement was further amended in 2009 to include additional financial support through the Children's Hospital of Pittsburgh of UPMC (CHP) to the University of at least \$7.5 million annually related to an agreement detailing the transfer of certain pediatric research programs from CHP to the University. This transfer standardized procedures, eliminated duplication of services, improved efficiency, reduced costs, and enhanced recruitment efforts for pediatric programs. The University received \$10.9 million and \$10.8 million in 2016 and 2015, respectively, related to this additional support. These amounts are reported as sales and services, educational and other in the Consolidated Statements of Activities.

UPMC also provided \$14.7 million and \$14.3 million in 2016 and 2015, respectively, of contractual dean's tax, which represents support for the academic and research activities of the SOM. This activity is reported as sales and services, educational and other in the Consolidated Statements of Activities.

UPMC also provides additional academic support to the SOM. These funds are used to support new programs, recruit faculty, and for general support of the School's academic mission. The University received \$59.5 million and \$60.3 million in 2016 and 2015, respectively, related to this additional support. These amounts are reported as sales and services, educational and other in the Consolidated Statements of Activities.

UPMC also provided \$2.9 million and \$3.3 million in 2016 and 2015, respectively, for the Institute for Personalized Medicine. These amounts are reported as other revenue in the Consolidated Statements of Activities.

Additionally, UPMC provided support to various departments within the SOM to augment their operating budgets. These payments were made to those departments that do not generate sufficient revenues to meet their research and academic costs. Payments made by UPMC for this purpose totaled \$9.0 million and \$8.9 million in 2016 and 2015, respectively, and are reported

as sales and services, educational and other in the Consolidated Statements of Activities.

The University is involved in certain rental arrangements where the University acts as both lessor or lessee with UPMC and its affiliates. Rental revenue from UPMC and affiliates totaled \$10.0 million and \$9.9 million in 2016 and 2015, respectively. Rent expense paid to UPMC and affiliates totaled \$21.9 million and \$21.0 million in 2016 and 2015, respectively.

In April 2013, the University entered into a five-year agreement with UPMC to provide full-time, armed police aid, support, and assistance for certain UPMC facilities. Payments made by UPMC for these services totaled \$2.3 million and \$2.5 million in 2016 and 2015, respectively, and are reported as other revenue in the Consolidated Statements of Activities.

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. Health insurance expense including administrative fees totaled \$107.2 million and \$107.5 million in 2016 and 2015, respectively, and is reported as fringe benefits in the Consolidated Statements of Activities.

UPMC receives federal matching funds for costs incurred by academic medical centers for medical assistance services. The funds are remitted to the University to support the activities of the SOM, the Western Psychiatric Institute and Clinic (WPIC), the Center for Public Health Practice, and the clinic within the School of Dental Medicine. These remittances were \$11.1 million in both 2016 and 2015 and are reported as commonwealth appropriation revenue in the Consolidated Statements of Activities.

In 2003, the University and UPMC created the Medical and Health Sciences Foundation (MHSF), a separate 501(c)(3) organization. The mission of MHSF is to create 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 evenly between the University and UPMC. UPMC's share of total operating costs for MHSF totaled \$3.7 million and \$4.4 million in 2016 and 2015, respectively, and is reported as other revenue in the Consolidated Statements of Activities. All contributions generated by MHSF are credited to the University or UPMC based upon donor intent.

In November 2004, the University entered into an agreement with UPMC to jointly construct and own the Carrillo Street steam plant, a gas-fired steam-generating facility. The University funded 78.1% of construction costs with UPMC funding the remaining 21.9%. The plant provides steam to each entity's respective buildings and is managed by the University.

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 2016 and 2015. Included in property, plant,

and equipment is \$190.7 million and \$189.2 million at June 30, 2016 and 2015, respectively, related to the land, buildings, and equipment used by WPIC. Accumulated depreciation related to these assets totaled \$159.9 million and \$155.8 million at June 30, 2016 and 2015, respectively.

The University also has an arrangement with UPMC whereby certain research-related costs incurred by UPMC (primarily staff compensation) in relation to WPIC and the University of Pittsburgh Cancer Institute (UPCI) research awards are charged to such awards via an electronic billing and reimbursed to UPMC each month. Payments totaled \$23.2 million in 2016 and \$24.7 million in 2015 and are recorded as expenses in the Consolidated Statements of Activities. All billings are recorded at cost.

UPMC provided support payments to UPCI for various subsidies, research initiatives, and general support. These payments totaled \$14.4 million and \$14.2 million in 2016 and 2015, respectively, and are primarily reported in other revenue in the Consolidated Statements of Activities.

NOTE 13: COMMITMENTS AND CONTINGENCIES

At June 30, 2016 and 2015, the University had outstanding contractual commitments of \$63.4 million and \$51.5 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 \$18.4 million and \$18.2 million in 2016 and 2015, respectively. Rental expense for operating leases was \$45.5 million in 2016 and \$45.1 million in 2015. Minimum future rental revenue and expense under operating leases that have initial or remaining noncancelable lease terms for the years ended June 30 are as follows:

	Rental Revenue	Rental Expense
	<i>(in thousands of dollars)</i>	
2017	\$ 16,650	\$ 45,537
2018	\$ 14,631	\$ 43,415
2019	\$ 11,863	\$ 43,302
2020	\$ 5,036	\$ 34,246
2021	\$ 4,536	\$ 20,084
Thereafter	\$ 9,934	\$ 108,914

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 support from UPMC to continue the two entities' commitment to their interrelated teaching, research, clinical care, and community service missions. There are various agreements between the University and UPMC that provide for this support (see Note 12), but there is no guarantee these agreements will be renewed in future periods.

The University receives significant financial assistance from the federal government including the sponsorship of federal research projects. 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. 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 agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants and the University's indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management's opinion, the likelihood of a material adverse outcome upon 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 14: SUBSEQUENT EVENTS

The University has evaluated subsequent events through September 22, 2016, the date on which the consolidated financial statements were issued, and determined that

there were no subsequent events requiring disclosure or adjustment to the consolidated financial statements.

MEMBERSHIP OF THE BOARD OF TRUSTEES FISCAL YEAR 2016

<p>MEMBERS EX OFFICIO (NONVOTING)</p> <p>Tom Wolf, Governor of the Commonwealth of Pennsylvania</p> <p>Pedro Rivera, Secretary of Education of the Commonwealth of Pennsylvania</p> <p>Rich Fitzgerald, Chief Executive of Allegheny County</p> <p>William Peduto, Mayor of the City of Pittsburgh</p>	<p><i>2015 – 19</i></p> <p>Robert G. Lovett Martha Hartle Munsch William E. Strickland Jr. Stephen R. Tritch</p> <p><i>2016 – 20</i></p> <p>John A. Barbour Eva Tansky Blum Edward J. Grefenstette Patricia D. Horoho John H. Pelusi Jr.</p>	<p>ALUMNI TRUSTEES</p> <p><i>2013 – 17</i></p> <p>Bryant J Salter</p> <p><i>2014 – 18</i></p> <p>Jane Bilewicz Allred F. James McCarl III</p> <p><i>2015 – 19</i></p> <p>Michael A. Bryson</p> <p><i>2016 – 20</i></p> <p>S. Jeffrey Kondis Jack D. Smith</p>	<p>EMERITUS TRUSTEES</p> <p>J. David Barnes Steven C. Beering Thomas G. Bigley Frank V. Cahouet John G. Conomikes George A. Davidson Jr. Catherine D. DeAngelis Herbert P. Douglas Jr. D. Michael Fisher E. Jeanne Gleason J. Roger Glunt Henry L. Hillman Earl F. Hord A. Alice Kindling Paul E. Lego George L. Miles Jr. Frank E. Mosier Alfred L. Moyé Thomas H. O'Brien Anthony J.F. O'Reilly Robert A. Paul James C. Roddey Farrell Rubenstein Richard P. Simmons John A. Swanson Burton M. Tansky Dick Thornburgh Thomas J. Usher Edward P. Zemprelli</p>
<p>MEMBER EX OFFICIO (VOTING)</p> <p>Patrick Gallagher, Chancellor and Chief Executive Officer</p>	<p>SPECIAL TRUSTEES</p> <p><i>2013 – 17</i></p> <p>Douglas M. Browning Deborah J. Gillotti Roberta A. Luxbacher Larry J. Merlo</p> <p><i>2014 – 18</i></p> <p>Brian Generalovich Robert M. Hernandez Robert P. Randall Sam S. Zacharias</p> <p><i>2015 – 19</i></p> <p>G. Nicholas Beckwith III Emil M. Spadafore Jr. A. David Tilstone</p> <p><i>2016 – 20</i></p> <p>David C. Chavern Marlee S. Myers</p>	<p>COMMONWEALTH TRUSTEES</p> <p><i>G: Governor appointment H: House appointment S: Senate appointment</i></p> <p><i>2012 – 16</i></p> <p>Jay Costa Jr. (S) Bradley J. Franc (G) Thomas O. Johnson III (H)</p> <p><i>2013 – 17</i></p> <p>Sy Holzer (G) William K. Lieberman (S) Thomas VanKirk (H)</p> <p><i>2014 – 18</i></p> <p>John A. Maher III (H) John J. Verbanac (S) Kevin Washo Jr. (G)</p> <p><i>2015 – 19</i></p> <p>Herbert S. Shear (H)</p> <p><i>2016 – 20</i></p> <p>Peter C. Varischetti (S)</p>	
<p>TERM TRUSTEES</p> <p><i>2013 – 17</i></p> <p>Suzanne W. Broadhurst Ira J. Gumberg Dawne S. Hickton Thomas E. Richards</p> <p><i>2014 – 18</i></p> <p>Mary Ellen Callahan James Covert Terrence P. Laughlin Keith E. Schaefer</p>			

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.