Fiscal Year 2020

Financial Report

KPMG LLP
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Pittsburgh, PA 15219-2598

Independent Auditors' Report

The Board of Trustees
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, 2020 and 2019, 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 Consolidated 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, 2020 and 2019, 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 2020, the University adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to this matter.

KPMG LLP

Pittsburgh, Pennsylvania
October 20, 2020

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2020 AND 2019
(in thousands of dollars)

	2020	2019
ASSETS:		
Cash and cash equivalents *(Notes 1, 2 and 6)*	$ 117,648	$ 10,521
Operating investments *(Notes 1, 2, 5 and 6)*	1,037,526	469,630
Inventories and deferred charges	26,161	35,656
Accounts and notes receivable, net *(Notes 2 and 3)*	232,318	266,984
Contributions receivable, net *(Notes 1 and 4)*	56,526	55,663
Student loans receivable, net	32,300	36,811
Foundation assets *(Note 1)*	35,615	30,903
Endowment investments *(Notes 5 and 6)*	4,203,474	4,342,563
Endowed funds held by third parties *(Note 6)*	22,865	23,677
Operating lease right-of-use assets, net *(Note 7)*	268,368	-
Property, plant, and equipment, net *(Note 8)*	1,979,055	1,929,919
TOTAL ASSETS	$ 8,011,856	$ 7,202,327
LIABILITIES:		
Accounts payable and accrued expenses	$ 104,839	$ 106,235
Accrued payroll and related liabilities	105,219	81,987
Deferred student and other revenue *(Note 1)*	41,609	48,101
Advanced receipt of grant funds *(Note 1)*	84,961	73,708
Refundable U.S. government student loans	26,000	32,978
Other liabilities *(Notes 6 and 10)*	144,857	138,004
Pension and postretirement obligations *(Note 11)*	721,088	622,845
Conditional asset remediation obligation *(Note 8)*	28,940	30,022
Right-of-use lease liabilities *(Note 7)*	300,765	-
Bonds and notes payable *(Note 9)*	1,452,894	899,687
TOTAL LIABILITIES	3,011,172	2,033,567
NET ASSETS:		
Without donor restrictions *(Notes 1 and 12)*		
Endowment designated for financial aid	1,556,934	1,704,446
Other designated endowments	1,010,788	947,923
Net invested in plant and other	698,087	763,467
Total without donor restrictions	3,265,809	3,415,836
With donor restrictions *(Notes 1 and 12)*		
Endowments	1,618,332	1,663,466
Other	116,543	89,458
Total with donor restrictions	1,734,875	1,752,924
TOTAL NET ASSETS	5,000,684	5,168,760
TOTAL LIABILITIES AND NET ASSETS	$ 8,011,856	$ 7,202,327

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

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020
COMPARED TO SUMMARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2019
(in thousands of dollars)

	2020			
OPERATING REVENUES:	Without Donor Restrictions	With Donor Restrictions	Total	2019
Tuition and fees (net of tuition discounts of $240.1 million and $206.0 million)	$ 632,622	$ -	$ 632,622	$ 639,561
Commonwealth appropriation	183,146	-	183,146	174,675
Commonwealth construction grants	1,838	25,833	27,671	8,781
Research grants and contracts	894,888	-	894,888	859,690
Contributions for operations	41,798	14,305	56,103	51,047
Endowment distributions and investment income	174,968	-	174,968	157,031
Sales and services, educational and other	135,139	-	135,139	138,947
Sales and services, auxiliary	127,317	-	127,317	151,020
UPMC academic support *(Note 15)*	270,135	-	270,135	172,218
Net assets released from restrictions	16,989	(16,989)	-	-
Total operating revenues	2,478,840	23,149	2,501,989	2,352,970
OPERATING EXPENSES:				
Salaries and wages	1,164,657	-	1,164,657	1,055,046
Fringe benefits	333,071	-	333,071	300,091
Total compensation	1,497,728	-	1,497,728	1,355,137
Supplies	115,591	-	115,591	122,669
Business and professional	348,940	-	348,940	374,303
Facilities	99,600	-	99,600	103,357
Depreciation	194,369	-	194,369	184,835
Interest	42,676	-	42,676	30,137
Rent	61,077	-	61,077	52,507
Other	56,826	-	56,826	42,301
Total operating expenses *(Note 14)*	2,416,807	-	2,416,807	2,265,246
Change in net assets from operating activities	62,033	23,149	85,182	87,724
OTHER ACTIVITIES:				
Investment (losses) gains, net of endowment distributions for operations	(71,936)	(65,130)	(137,066)	71,575
Contributions for endowment	-	23,932	23,932	31,025
Change in fair value of interest rate swaps *(Note 10)*	(35,300)	-	(35,300)	(20,765)
Deferred tax (expense) benefit *(Note 1)*	(11,355)	-	(11,355)	11,355
Other components of net periodic benefit cost *(Note 11)*	(23,586)	-	(23,586)	(22,241)
Nonperiodic changes in benefit plans *(Note 11)*	(69,883)	-	(69,883)	(46,707)
Total other activities	(212,060)	(41,198)	(253,258)	24,242
CHANGE IN NET ASSETS	(150,027)	(18,049)	(168,076)	111,966
NET ASSETS, BEGINNING OF YEAR	3,415,836	1,752,924	5,168,760	5,056,794
NET ASSETS, END OF YEAR	$ 3,265,809	$ 1,734,875	$ 5,000,684	$ 5,168,760

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

Consolidated Statement of Activities
For the Year Ended June 30, 2019
(in thousands of dollars)

	2019		
OPERATING REVENUES:	Without Donor Restrictions	With Donor Restrictions	Total
Tuition and fees (net of tuition discounts of $206.0 million)	$ 639,561	$ -	$ 639,561
Commonwealth appropriation	174,675	-	174,675
Commonwealth construction grants	-	8,781	8,781
Research grants and contracts	859,690	-	859,690
Contributions for operations	33,216	17,831	51,047
Endowment distributions and investment income	157,031	-	157,031
Sales and services, educational and other	138,947	-	138,947
Sales and services, auxiliary	151,020	-	151,020
UPMC academic support *(Note 15)*	172,218	-	172,218
Net assets released from restrictions	42,037	(42,037)	-
Total operating revenues	2,368,395	(15,425)	2,352,970
OPERATING EXPENSES:			
Salaries and wages	1,055,046	-	1,055,046
Fringe benefits	300,091	-	300,091
Total compensation	1,355,137	-	1,355,137
Supplies	122,669	-	122,669
Business and professional	374,303	-	374,303
Facilities	103,357	-	103,357
Depreciation	184,835	-	184,835
Interest	30,137	-	30,137
Rent	52,507	-	52,507
Other	42,301	-	42,301
Total operating expenses *(Note 14)*	2,265,246	-	2,265,246
Change in net assets from operating activities	103,149	(15,425)	87,724
OTHER ACTIVITIES:			
Investment gains, net of endowment distributions for operations	44,111	27,464	71,575
Contributions for endowment	-	31,025	31,025
Change in fair value of interest rate swaps *(Note 10)*	(20,765)	-	(20,765)
Deferred tax benefit *(Note 1)*	11,355	-	11,355
Other components of net periodic benefit cost *(Note 11)*	(22,241)	-	(22,241)
Nonperiodic changes in benefit plans *(Note 11)*	(46,707)	-	(46,707)
Total other activities	(34,247)	58,489	24,242
CHANGE IN NET ASSETS	68,902	43,064	111,966
NET ASSETS, BEGINNING OF YEAR	3,346,934	1,709,860	5,056,794
NET ASSETS, END OF YEAR	$ 3,415,836	$ 1,752,924	$ 5,168,760

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
(in thousands of dollars)

	2020	2019
CASH AND CASH EQUIVALENTS:		
End of year	$ 117,648	$ 10,521
Beginning of year	10,521	45,809
CHANGE IN CASH AND CASH EQUIVALENTS	$ 107,127	$ (35,288)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (168,076)	$ 111,966
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, and amortization of right-of-use assets	233,595	184,835
Deferred tax expense (benefit)	11,355	(11,355)
Other components of net periodic benefit cost	23,586	22,241
Nonperiodic changes in benefit plans	69,883	46,707
Amortization of debt issuance costs and bond premiums, net	836	279
Loss on disposal of plant assets	4,124	2,301
Investment gains	(19,679)	(200,369)
Change in fair value of interest rate swaps	35,300	20,765
Contributions restricted for long-term investment	(53,903)	(41,341)
Changes in operating assets and liabilities:		
Accounts, notes, contributions, and loans receivable, net	48,524	(35,414)
Other assets	(1,860)	(745)
Accounts payable and accrued expenses	3,722	7,720
Pension and postretirement obligations	4,774	3,309
Other liabilities	21,071	2,918
Operating leases, net	(35,388)	-
Net cash provided by operating activities	177,864	113,817
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expended for property, plant, and equipment - University	(219,958)	(249,620)
Expended for property, plant, and equipment - commonwealth	(27,671)	(8,781)
Change in accounts payable for property, plant, and equipment	(5,118)	(486)
Purchases/sales of operating investments, net	(544,174)	(76,910)
Purchases of endowment investments	(5,283,533)	(4,135,729)
Proceeds from sales/maturities of endowment investments	5,419,426	4,210,040
Change in foundation assets and other	(4,746)	(1,252)
Net cash used for investing activities	(665,774)	(262,738)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of debt and other	(202,615)	(43,600)
Proceeds from issuance of debt and other	754,986	109,588
Repayments on credit facilities	(106,500)	-
Borrowings on credit facilities	106,500	-
Principal payments on finance leases	(1,370)	-
Contributions restricted for long-term investment	44,036	47,645
Net cash provided by financing activities	595,037	113,633
CHANGE IN CASH AND CASH EQUIVALENTS	$ 107,127	$ (35,288)
Supplemental disclosure of cash flow information:		
Cash paid for interest (excluding fees)	$ 35,941	$ 30,282
Noncash investing activity for property, plant, and equipment:		
Accounts payable	$ 22,994	$ 28,112
Capital lease obligations	$ -	$ 24,525

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 approximately 28,400 students in various undergraduate, graduate, and doctorate-professional programs. Four regional campuses with a total enrollment approximating 5,400 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 with 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 at current levels or at levels requested by the University. In addition, the commonwealth funds certain capital projects in support of the University's mission, as well as support for sponsored research grants and contracts, as presented in the following table:

	2020	2019
	(in thousands of dollars)	
Commonwealth appropriation:		
General support	$ 151,507	$ 148,536
Rural Education Outreach	3,346	2,846
Supplemental funds – Academic Medical Centers and general support	28,293	23,293
Total commonwealth appropriation	183,146	174,675
Commonwealth construction grants	27,671	8,781
Commonwealth research grants and contracts	13,712	13,918
Total	$ 224,529	$ 197,374

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 affiliated with but not controlled by the University. The University has 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 (losses), net of endowment distributions for operations; contributions for endowment; change in fair value of interest rate swaps; deferred tax expense/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 13).

Basis of Accounting
The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (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 restrictions 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, as delegated by the board. 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 restrictions 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 Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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).

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

	2020	2019
	(in thousands of dollars)	
Net tuition and fees	$ 632,622	$ 639,561
UPMC academic support	270,135	172,218
Sales and services, educational and other	135,139	138,947
Sales and services, auxiliary	127,317	151,020
Total	$ 1,165,213	$ 1,101,746

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 72.0% and 71.7% of net tuition and fees in 2020 and 2019, 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 2020 and 2019 were $240.1 million and $206.0 million, respectively. The portion of tuition discounts attributable to institutional funds in 2020 and 2019 were $208.3 million and $174.1 million, respectively. Tuition discounts attributable to contributions, donor-restricted endowment distributions, and grant activities were $31.8 million and $31.9 million in 2020 and 2019, respectively. Such discounts are reflected within net tuition and fees.

UPMC academic support includes revenues from UPMC and UPP to support teaching, research, and community service functions at the University. Revenue is recognized for these activities as performance obligations are met (see Note 15).

Sales and services, educational and other includes revenues from activities to provide students an enhanced educational experience including athletics, student services, and the study abroad program. Revenue is recognized for these activities as performance obligations are met, which occurs ratably over the period of performance.

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 2020 and 2019 comprised 82.8% and 84.1%, 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, 2020 or June 30, 2019.

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 prior period contract liabilities in 2020 and 2019 was $39.2 million and $43.2 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 and allows for a reduction in tuition rates for Pennsylvania resident students. The reduction in rates in 2020 and 2019 amounted to $288.3 million and $273.9 million, respectively. Funds are to be spent in accordance with applicable laws and revenue is recognized ratably over the fiscal year as qualified expenses are incurred.

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 which 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 2020 and 2019 was $894.9 million and $859.7 million, respectively, with approximately 64% 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 qualifying expenses are 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. 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 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 and cash equivalents, 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 equivalents that are part of endowment investments are shown therewith, as such funds are utilized for endowment purposes rather than University operating needs and therefore are not included in cash and cash equivalents for purposes of the statement of cash flows.

Foundation Assets
The University's foundation assets represent the University's interest in 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 managers and reviewed by the University. Indirect holdings of private assets primarily consist of University interests in funds investing in non-marketable 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. Non-marketable alternatives are private equity or equity-like holdings, such as mezzanine and subordinated debt interests, in venture capital, 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 10).

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 $31.1 million and $31.2 million at June 30, 2020 and 2019, respectively, and other liabilities include $15.6 million at both June 30, 2020 and 2019, respectively, for 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 $9.0 million and $8.2 million has been recorded at June 30, 2020 and 2019, 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 $10.7 million and $6.0 million at June 30, 2020 and 2019, respectively, and are included in accrued payroll and related liabilities on the Consolidated Balance Sheets.

Recent Accounting Pronouncements
In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, as amended. The ASU is effective for fiscal year 2021 and requires lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting remains substantially unchanged. The ASU aims to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The University early adopted this standard on July 1, 2019, using a modified retrospective basis and elected the package of practical expedients permitted under the transition guidance with Topic 842, which allows the University to carry forward its identification of contracts that are or contain leases, its historical classification of existing leases, and its accounting for initial direct costs for existing leases. Upon adoption, the University recorded operating right-of-use (ROU) assets and liabilities of $193.9 million, as of July 1, 2019, primarily related to real estate leases. No change to beginning net assets was required. See Note 7 for additional lease disclosures.

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 2020 or 2019.

In 2019, the University recorded an $11.4 million deferred tax benefit (included in inventories and deferred charges on the Consolidated Balance Sheets) as management believed it was more likely than not that unrelated business income from parking operations would generate sufficient taxable income in future periods so federal net operating loss carryforwards would be utilized. On December 20, 2019, the Taxpayer Certainty and Disaster Tax Relief Act of 2019 was signed into law, which retroactively repeals the "parking tax" for tax exempt organizations. As a result, the University removed the deferred tax benefit recorded in 2019 and a full valuation allowance was recorded at June 30, 2020.

Reclassifications
Certain 2019 operating revenue line items include reclassifications related to the presentation of a separate UPMC academic support line item on the Consolidated Statements of Activities to conform with the 2020 presentation. There was no change in total operating revenues.

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:

	2020	2019
	(in thousands of dollars)	
Cash and cash equivalents	$ 117,648	$ 10,521
Operating investments	1,015,898	448,012
Accounts and notes receivable, net	232,318	266,984
Payout on designated endowment – financial aid	75,976	66,629
Payout on endowments - other	82,732	79,385
Financial assets available within one year	$ 1,524,572	$ 871,531

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 loans receivable 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, 2020. No draws were made against the facilities during 2020. Termination dates on the lines of credit available at June 30, 2020 range from January 2023 to January 2025. It is management's intention to extend each credit facility.

The University also maintains two unsecured credit facilities aggregating $150.0 million at June 30, 2020 to manage the cash flow requirements of the University's endowment. The University made draws of $106.5 million against the facilities during 2020 and there are no outstanding balances at June 30, 2020. The $50.0 million credit facility terminates in January 2023 and the $100.0 million credit facility terminates in January 2025.

NOTE 3: ACCOUNTS AND NOTES RECEIVABLE, NET

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

	2020	2019
	(in thousands of dollars)	
Sponsored grant receivables, net	$ 147,453	$ 134,557
Hospitals and affiliated organizations receivables, net	37,386	33,278
Other receivables, net	22,119	16,320
Plant construction receivables due from commonwealth	18,692	11,833
Student receivables, net	6,668	7,496
Commonwealth appropriation receivable	-	63,500
Total accounts and notes receivable, net	$ 232,318	$ 266,984

NOTE 4: CONTRIBUTIONS RECEIVABLE, NET

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

	2020	2019
Amounts due in:	*(in thousands of dollars)*	
Less than one year	$ 20,051	$ 17,890
One to five years	31,299	32,026
Greater than five years	7,527	10,816
Gross contributions receivable	58,877	60,732
Less:		
Allowance for uncollectible pledges	(1,650)	(1,392)
Unamortized discounts	(701)	(3,677)
Total contributions receivable, net	$ 56,526	$ 55,663

At June 30, 2020 and 2019, the five largest outstanding pledge balances represented 49% and 55%, 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 $298.0 million and $283.5 million at June 30, 2020 and 2019, 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:

	2020	2019
Endowment investments:	*(in thousands of dollars)*	
Pooled	$ 4,160,404	$ 4,299,208
Nonpooled	43,070	43,355
Subtotal endowment investments	4,203,474	4,342,563
Operating investments	1,037,526	469,630
Total endowment and operating investments	$ 5,241,000	$ 4,812,193
Composition of endowment investments:		
Cash equivalents	$ 237,390	$ 48,408
Domestic equities	386,263	678,766
International equities	824,176	883,225
U.S. government and government agencies' securities, bank acceptances and certificates, and commercial paper	151,707	235,709
Corporate bonds and other obligations	44,475	74,151
Alternative investment funds, partnerships, and exchange traded funds:		
Marketable alternatives	900,912	854,520
Nonmarketable alternatives	965,100	884,248
Real assets	693,451	683,536
Total endowment investments	$ 4,203,474	$ 4,342,563
Composition of operating investments:		
U.S. government and government agencies' securities, repurchase agreements, and commercial paper	$ 594,460	$ 260,809
Corporate bonds and other obligations	419,763	185,103
Other	23,303	23,718
Total operating investments	$ 1,037,526	$ 469,630

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 that 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, 2020 and 2019, for which NAV was used as a practical expedient to estimate fair value:

Asset Class	Fair Value Determined Using NAV 2020	Fair Value Determined Using NAV 2019	Unfunded Commitments at June 30, 2020	Redemption Frequency	Redemption Notice Period
		(in thousands of dollars)			
International equities	$ 400,666	$ 179,209	$ -	30-90 days	30-120 days
Marketable alternatives:					
Redeemable within one year	704,963	654,700	30,000	30-365 days	30-180 days
Redeemable beyond one year	129,399	53,811	-	1-3 years	60-90 days
Nonredeemable	35,701	32,745	39,143	NA	NA
Total marketable alternatives	870,063	741,256	69,143		
Nonmarketable alternatives	965,100	884,248	545,141	NA	NA
Real assets - Nonredeemable	693,451	657,914	531,336	NA	NA
Total	$ 2,929,280	$ 2,462,627	$ 1,145,620		

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

International Equities
A portion of the University's investments in international equities includes interests in four funds that hold publicly traded domestic, international, and 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 non-publicly 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. In addition to investments in commingled funds, the University may invest directly in privately-held companies alongside its commingled funds.

Real Assets
The University's investments in real assets are interests in commingled funds that hold various combinations of publicly and non-publicly 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, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Assets	*(in thousands of dollars)*			
Cash equivalents	$ 42,827	$ 74,821	$ -	$ 117,648
Endowment investments:				
Cash equivalents	145,270	92,120	-	237,390
Domestic equities	383,851	2,412	-	386,263
International equities	422,341	1,169	-	423,510
U.S. government, corporate bonds, and other obligations	169,457	22,946	3,779	196,182
Marketable alternatives	5,999	24,850	-	30,849
Real assets	-	-	-	-
Subtotal endowment investments(1)	1,126,918	143,497	3,779	1,274,194
Operating investments:				
U.S. government, corporate bonds, and other obligations	887,358	126,865	-	1,014,223
Other	1,675	-	21,628	23,303
Endowed funds held by third parties	-	-	22,865	22,865
Total assets	$ 2,058,778	$ 345,183	$ 48,272	$ 2,452,233
Liabilities				
Interest rate swaps	$ -	$ 112,854	$ -	$ 112,854

	2019			
	Level 1	Level 2	Level 3	Total
Assets	*(in thousands of dollars)*			
Cash equivalents	$ 9,485	$ 1,036	$ -	$ 10,521
Endowment investments:				
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

(1) The subtotals of endowment investments within the fair value tables above exclude investments of $2,929,280 and $2,462,627 as of June 30, 2020 and 2019, 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, 2020 and 2019:

	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, 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
Capital calls/purchases	-	-	1,138	1,138
Distributions/sales	(1,851)	(7,829)	(1,032)	(10,712)
Realized gains	451	709	-	1,160
Unrealized losses	(1,141)	(662)	(908)	(2,711)
Fair Value - June 30, 2020	$ -	$ 3,779	$ 44,493	$ 48,272

NOTE 7: LEASES

The University has operating and finance leases for campus facilities, office space, equipment and vehicles. Right-of-use assets represent the University's right to use an underlying asset for the lease term, if greater than twelve months. Lease obligations represent the University's liability to make lease payments arising from the lease. Operating and finance lease right-of-use assets and related obligations are recognized at commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. The incremental borrowing rate is based on the information available at commencement date in determining the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Interest expense is recognized as a component of the lease payment for finance leases.

Rental income arising from operating leases as a lessor is included in operating revenue in sales and services, educational and other in the Consolidated Statements of Activities.

The Consolidated Balance Sheet location of assets and liabilities related to operating and finance leases as of June 30, 2020 follow:

	Location on Consolidated Balance Sheets	2020
		(in thousands of dollars)
Assets		
Operating lease assets	Operating lease right-of-use assets, net	$ 268,368
Finance lease assets[(a)]	Property, plant and equipment, net	25,912
Total lease assets		$ 294,280
Liabilities		
Operating lease liabilities	Right-of-use lease liabilities	$ 272,549
Finance lease liabilities	Right-of-use lease liabilities	28,216
Total lease liabilities		$ 300,765

(a) Finance lease assets are recorded net of accumulated depreciation of $14.2 million as of June 30, 2020.

The following table is a summary of the components of lease expense for the year ended June 30, 2020:

	Location on Consolidated Statements of Activities	2020
		(in thousands of dollars)
Operating lease expense	Rent	$ 46,101
Finance lease expense		
Amortization of ROU asset	Depreciation	2,967
Interest on lease liabilities	Interest	1,544
Short-term lease expense	Rent	1,719
Variable lease expense	Rent	13,773
Total lease cost		$ 66,104

The University recognized $18.8 million in sublease income included in sales and services, educational and other in the Consolidated Statements of Activities at June 30, 2020.

When the rate implicit in the contract is not readily determinable, a collateralized incremental borrowing rate as the discount rate for the present value of lease payments is used. Lease terms and discount rates follow:

	2020
Weighted average remaining lease term (years):	
Operating leases	8.19
Finance leases	13.66
Weighted average discount rate:	
Operating leases	2.69%
Finance leases	4.43%

Supplemental cash flow information related to leases as of and for the year ended June 30, 2020 is as follows:

	2020
	(in thousands of dollars)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows paid for operating leases	$ 45,269
Operating cash flows paid for interest portion of finance leases	$ 1,544
Financing cash flows paid for principal portion of finance leases	$ 1,370
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 113,681
Right-of-use assets obtained in exchange for new finance lease liabilities	$ -

The approximate future minimum lease payments under operating and financing leases as of June 30, 2020 are as follows:

	Operating Leases	Finance Leases
	(in thousands of dollars)	
2021	$ 46,183	$ 2,860
2022	40,301	2,883
2023	38,089	2,907
2024	35,709	2,974
2025	29,460	2,898
Thereafter	114,494	26,581
Total lease payments	304,236	41,103
Less: imputed interest	(31,687)	(12,887)
Present value of lease liabilities	$ 272,549	$ 28,216

As previously disclosed in the fiscal year 2019 Financial Report and under the previous lease accounting standard, future minimum lease payments 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:

	Operating Leases
	(in thousands of dollars)
2021	$ 43,378
2022	37,678
2023	32,291
2024	30,054
2025	28,602
Thereafter	108,266
Total	$ 280,269

Approximate minimum future rental revenue under operating leases that have initial or remaining noncancelable lease terms for the years ended June 30 are as follows:

	Lessor Rental Revenue
	(in thousands of dollars)
2021	$ 17,422
2022	14,286
2023	12,307
2024	10,280
2025	2,010
Thereafter	6,294
Total	$ 62,599

NOTE 8: PROPERTY, PLANT, AND EQUIPMENT, NET

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

	2020	2019
	(in thousands of dollars)	
Land	$ 77,429	$ 75,658
Buildings and improvements	3,563,075	3,465,813
Equipment	843,148	804,690
Library books	320,146	308,705
Works of art, historical treasures, and similar assets	22,739	21,690
Construction in progress	220,345	151,790
Subtotal	5,046,882	4,828,346
Less: Accumulated depreciation	(3,067,827)	(2,898,427)
Total property, plant, and equipment, net	$ 1,979,055	$ 1,929,919

The amount capitalized in property, plant, and equipment related to expenditures funded by the commonwealth on behalf of the University totaled $781.1 million and $779.9 million at June 30, 2020 and 2019, respectively. The net book value of these items was $304.8 million and $330.1 million at June 30, 2020 and 2019, respectively.

The University has recognized a liability for conditional asset retirement obligations and through an analysis of such obligations, 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, 2020 and 2019 was $28.9 million and $30.0 million, respectively.

NOTE 9: 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	2020 Effective Interest Rates	Outstanding Principal (in thousands of dollars) 2020	2019
Variable-rate bonds and notes:				
Series 2017-C1, taxable	-	1.73%-2.48%	$ -	$ 55,000
Series 2017-C2, taxable	-	1.65%-2.48%	-	55,000
Series 2017-C3, taxable	-	1.83%-2.50%	-	50,000
Series 2014-B1/B2, tax-exempt	5-15	0.40%-1.70%	46,000	46,000
Series 2018 PANTHER™ Notes, due September 15, 2021		0.36%-3.10%	110,000	110,000
Series 2019 PANTHER™ Notes, due February 15, 2024		0.48%-3.22%	200,000	-
Total variable-rate bonds and notes			356,000	316,000
Fixed-rate bonds:				
Series 2017-A, taxable	3 mos.-16	1.83%-3.65%	393,300	434,900
Series 2017-B, taxable	3 mos.-10	1.72%-3.60%	101,320	102,335
Series 2014-A, tax-exempt	16-24	3.51%-3.65%	49,000	49,000
Series 2017-C, taxable	11-21	2.53%-3.01%	160,000	-
Series 2019-A, taxable	99	3.56%	400,000	-
Noninterest-bearing promissory note			171	171
Total fixed-rate bonds			1,103,791	586,406
Unamortized net premium			1,213	1,274
Debt issuance costs			(8,110)	(3,993)
Total bonds and notes payable			$1,452,894	$ 899,687

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

2021	$ 41.8
2022	$ 151.2
2023	$ 39.4
2024	$ 240.8
2025	$ 39.7

The foregoing principal payments do not include $46.0 million of variable-rate demand bonds (VRDBs) in commercial paper (CP) mode, all of which have maturity dates between 2025 and 2035. These bonds bear short-term rates that are fixed over staggered periods of approximately 90 days each and are remarketed at the expiration of their respective rate periods.

Liquidity support for the $46.0 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. Since the University commenced providing self-liquidity in October 2009, there have been no failed remarketings.

In November 2019, the University issued $400.0 million Taxable University Bonds (Series 2019-A). These bonds are fixed rate and issued as a century bond with the principal due in 100 years (September 2119) from the issuance date. The proceeds of the 2019-A Bonds will be used to finance various capital projects of the University.

In December 2019, the University remarketed $160.0 million fixed rate Taxable University Refunding Bonds (Series 2017-C). This remarketing converted $160.0 million of the University's taxable variable rate commercial paper (Series 2017 C1, C2 and C3) to a fixed rate with final maturity dates between 2031 and 2041.

In December 2019, the University issued its Pitt Asset Notes – Tax-Exempt Higher Education Registered Series of 2019 (Series 2019 PANTHERS™ Notes) in the amount of $200.0 million to reimburse the University for prior capital and equipment expenditures. These four-year floating rate notes will mature on February 15, 2024.

Interest expense incurred in 2020 and 2019 was $42.7 million and $30.1 million, respectively. Included in these amounts are net swap payments and capitalized interest associated with various construction projects. Capitalized interest was $0.9 million for both 2020 and 2019.

NOTE 10: 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 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 and total return swap contracts with gross notional values of $332.5 million and $92.2 million at June 30, 2020 and 2019, respectively. When the University uses futures and total return swaps to replicate an investment position, it may also post required collateral. Futures contracts and total return swaps are marked-to-market daily based on settlement prices established by the exchange or the appropriate International Swaps and Derivatives Association (ISDA) counterparty with which they are traded. Gains and losses are realized when the contracts expire or are closed. There were unrealized gains of $11.9 million and $1.5 million on these future and total return swap contracts at June 30, 2020 and June 30, 2019, respectively.

The University's liability arising from variable-to-fixed interest rate swap agreements associated with certain University debt obligations had an aggregated fair value of $112.9 million and $77.6 million at June 30, 2020 and 2019, 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 recognized in the Consolidated Statements of Activities unrealized losses of $35.3 million and $20.8 million in 2020 and 2019, respectively, due to changes in fair value of the swaps.

The aggregate notional amount of the swap agreements associated with University debt was $315.3 million and $320.3 million at June 30, 2020 and 2019, 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 2020 or 2019 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 11: 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 2020 and 2019 were $90.5 million and $86.3 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 2020 and 2019 were $6.7 million and $4.9 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 13). The fair value of this fund at June 30, 2020 and 2019 was $479.1 million and $479.5 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, 2020 and 2019 is summarized in the table below:

	Defined-Benefit Plan		Postretirement Plan	
	2020	2019	2020	2019
	(in thousands of dollars)			
Service cost	$ 7,361	$ 7,151	$ 22,511	$ 19,099
Other components of net periodic benefit cost:				
Interest cost	$ 7,599	$ 6,950	$ 21,056	$ 22,179
Expected return on plan assets	(11,321)	(10,480)	-	-
Actuarial loss	3,090	1,287	3,162	2,305
Total	$ (632)	$ (2,243)	$ 24,218	$ 24,484
Funded status:				
Benefit obligation at beginning of year	$ 202,191	$ 164,979	$ 579,034	$ 531,620
Service cost	7,361	7,151	22,511	19,099
Interest cost	7,599	6,950	21,056	22,179
Actuarial loss	39,987	24,610	30,267	24,170
Benefits paid	(1,761)	(1,499)	(18,369)	(18,034)
Benefit obligation at end of year	$ 255,377	$ 202,191	$ 634,499	$ 579,034
Fair value of plan assets at beginning of year	$ 158,380	$ 146,011		
Actual return on plan assets	5,441	8,961		
Actual plan contributions	6,728	4,907		
Benefits paid	(1,761)	(1,499)		
Fair value of plan assets at end of year	$ 168,788	$ 158,380		
Funded status – liability recognized on Consolidated Balance Sheets:				
Pension and postretirement obligations	$ (86,589)	$ (43,811)	$ (634,499)	$ (579,034)
Accumulated benefit obligation	$ 243,521	$ 193,323		

Estimated 2021 employer contribution to the defined-benefit plan: *(in thousands of dollars)*	$ 11,200

	Defined-Benefit Plan		Postretirement Plan	
	2020	2019	2020	2019
Weighted-average assumptions used to determine the benefit obligation (liability) at June 30:				
Discount rate	3.1%	3.8%	3.0%	3.7%
Rate of compensation increase	3.0%	3.0%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	6.75%	6.75%
Initial trend – post-age 65 retirees	-	-	6.0%	6.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2030	2029
Mortality rate table	Pri-2012	RP-2014	Pri.H-2012	RPH-2014
Mortality improvement scale	MP-2019	MP-2018	MP-2019	MP-2018
Weighted-average assumptions used to determine the net periodic cost (expense) for the years ended June 30:				
Discount rate	3.8%	4.25%	3.7%	4.25%
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	-	-	6.75%	7.0%
Initial trend – post-age 65 retirees	-	-	6.0%	6.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2027	2026

Estimated future benefit payments:	Defined-Benefit Plan	Postretirement Plan
	(in thousands of dollars)	
2021	$ 7,207	$ 17,037
2022	$ 5,216	$ 20,356
2023	$ 5,752	$ 21,966
2024	$ 6,259	$ 23,601
2025	$ 6,762	$ 25,468
2026 – 2030	$ 42,466	$ 152,204

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, 2020 and 2019 was $168.8 million and $158.4 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	2020	2019
Asset class:		*(in thousands of dollars)*	
Equity securities:			
Stock index and small cap	35%	$ 58,918	$ 55,096
International	35%	58,573	55,525
Debt securities	30%	50,762	47,475
Cash and cash equivalents	-	535	284
Total pension plan assets		$ 168,788	$ 158,380

NOTE 12: NET ASSETS

Net assets at June 30 consist of the following:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
		(in thousands of dollars)	
Endowments – instruction and academic support	$ -	$ 1,047,022	$ 1,047,022
Endowments – financial aid	-	371,899	371,899
Endowments – other	-	199,411	199,411
Endowment designated for financial aid	1,556,934	-	1,556,934
Endowment designated for postretirement benefits	479,059	-	479,059
Endowments designated for schools and other	531,729	-	531,729
Total endowment net assets	2,567,722	1,618,332	4,186,054
Net invested in plant and other	698,087	32,444	730,531
Pledges, loan funds, and other	-	84,099	84,099
Total net assets	$ 3,265,809	$ 1,734,875	$ 5,000,684

	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

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 13). 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 $793.9 million and $771.8 million as of June 30, 2020 and 2019, 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 2020 and 2019, the endowment distributed $76.0 million and $66.6 million, respectively (see 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 $19.5 million and $18.3 million in 2020 and 2019, respectively, and were returned to principal. Postretirement liabilities of $634.5 million as of June 30, 2020 and $579.0 million as of June 30, 2019 are reported in pension and postretirement obligations 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 8).

NOTE 13: 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 for all endowments except the endowment designated for financial aid, provided that such distribution is not less than the amount distributed in the previous year. During fiscal year 2020, the University elected to increase the stipulated percentage to 4.75% of the endowment's three-year average fair value for the endowment designated for financial aid.

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, 2020 and 2019 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
	(in thousands of dollars)		
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
Endowment return:			
Endowment earnings	126	1,777	1,903
Gains (losses)	64,164	(67,585)	(3,421)
Total endowment return	64,290	(65,808)	(1,518)
Contributions	548	20,674	21,222
Distributions for operations	(158,708)	-	(158,708)
Net transfers	9,223	-	9,223
Endowment net assets – June 30, 2020	$ 2,567,722	$ 1,618,332	$ 4,186,054

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 14: 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:

2020	Program Services					
	Academics	**Research and Related**	**Student Services**	**Auxiliary Enterprises**	**Support Services**	**Total**
	(in thousands of dollars)					
Salaries and wages	$ 509,937	$ 462,085	$ 80,123	$ 21,114	$ 91,398	$ 1,164,657
Fringe benefits	142,647	129,628	26,432	7,439	26,925	333,071
Total compensation	652,584	591,713	106,555	28,553	118,323	1,497,728
Supplies	31,037	67,645	9,678	2,829	4,402	115,591
Business and professional	48,703	179,593	37,377	38,997	44,270	348,940
Facilities	42,868	23,188	8,248	18,587	6,709	99,600
Depreciation	80,393	51,801	19,140	27,387	15,648	194,369
Interest	16,792	10,913	3,996	7,701	3,274	42,676
Rent	21,352	27,058	2,476	4,361	5,830	61,077
Other	9,671	4,331	14,498	23,298	5,028	56,826
Total operating expenses	903,400	956,242	201,968	151,713	203,484	2,416,807
Other components of net periodic benefit cost	10,327	9,358	1,623	427	1,851	23,586
Total	$ 913,727	$ 965,600	$ 203,591	$ 152,140	$ 205,335	$ 2,440,393

2019	Program Services					
	Academics	**Research and Related**	**Student 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

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, including student admissions, registration, counseling and advising, as well as intercollegiate athletics. 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 administrative functions in support of the University's academic, research, and public service mission.

NOTE 15: 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, 2020 and 2019:

Service Agreement	Location on the Consolidated Financial Statements	2020	2019
		(in thousands of dollars)	
Common paymaster arrangement[(a),(c)]	Net on balance sheet	$ 33,450	$ 119,196
Facilities-related services, mail, telephone, printing, and other services[(a)]	Net on balance sheet	17,442	16,491
Net balance sheet transactions with UPMC		$ 50,892	$ 135,687
UPMC dean's tax, Children's Hospital of Pittsburgh, and other academic support[(b)]	UPMC academic support	$ 118,834	$ 104,178
UPMC dual faculty support[(c)]	UPMC academic support	82,310	-
UPMC academic affiliation agreement[(d)]	UPMC academic support	31,500	31,000
UPMC Hillman Cancer Center research support payments[(e)]	UPMC academic support	16,876	17,237
UPMC grant revenue[(f)]	Research grants and contracts	15,447	13,072
Rental revenue[(g)]	UPMC academic support	10,496	10,209
Health Sciences Library System[(h)]	UPMC academic support	5,189	4,057
Cost sharing for Medical and Health Sciences Foundation[(i)]	UPMC academic support	3,635	3,657
UPMC Enterprises	Contributions for operations	455	2,250
Institute for Personalized Medicine	UPMC academic support	1,295	1,880
Revenues from UPMC		$ 286,037	$ 187,540
Health insurance coverage for University employees[(j)]	Fringe benefits	$ 135,650	$ 130,608
WPIC and UPMC Hillman Cancer Center research services[(k)]	Primarily compensation	26,558	27,007
Rental expense paid to UPMC[(g)]	Rent	24,161	23,999
Expenses paid to UPMC		$ 186,369	$ 181,614

(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) Beginning in fiscal year 2020, UPP and the University entered into a funding arrangement to broadly support the SOM and its missions. The funding arrangement specifies monthly remittances which can be used for operations. Previously, UPP would reimburse the University for faculty compensation, which was recognized on a net basis (see (a) above).

(d) 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.

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

(f) A portion of the University's sponsored program activity is provided by UPMC.

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

(h) UPMC provides support for their use of the University's Health Sciences Library System.

(i) 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.

(j) 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.

(k) 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 2020 and 2019. Included in property, plant, and equipment is $183.3 million and $181.4 million at June 30, 2020 and 2019, respectively, related to the land, buildings, and equipment used by WPIC. Accumulated depreciation related to these assets totaled $160.8 million and $156.9 million at June 30, 2020 and 2019, respectively.

NOTE 16: COMMITMENTS AND CONTINGENCIES

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce and financial markets globally. Commencing March 18, 2020, undergraduate and graduate course instruction was conducted virtually and most students vacated the campus. The University granted refunds of $18.1 million in 2020 for housing and dining services not provided after March 18, 2020. Students continued to meet their academic requirements for the remainder of the 2020 academic year. The University granted student emergency grants under the Higher Education Emergency Relief Act (HEERF) of approximately $10.6 million. In addition, another $10.6 million was received through HEERF to offset the University's institutional costs related to the pandemic. Total revenue of $16.6 million is recognized as research grants and contracts in the Consolidated Statement of Activities in 2020. While the start of the 2021 academic year will begin with a modified return to campus plan for students, many faculty and staff remain working in a remote environment. Given the uncertainty over the progression of the virus and governmental emergency directives, there is no timetable for when instruction and campus operations will return to normal.

The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets, and the higher education landscape in general. While the financial impact on the University is being monitored at this time, the pandemic may continue to adversely affect operations and financial condition, including, among other things, the ability of the Universtiy to conduct its operations and/or the cost of operations; governmental and non-governmental funding; and financial markets impacting investments valuation and interest rates. The University continues to monitor the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic and research missions.

At June 30, 2020 and 2019, the University had outstanding contractual commitments of $265.8 million and $141.8 million, respectively, for property, plant, and equipment expenditures.

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.

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 17: SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 20, 2020, 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 2020

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.