



# University of Pittsburgh Board of Trustees

**Public Meeting  
of the  
Audit Committee  
October 14, 2021  
11:00 a.m. – 11:15 a.m.**

## **Agenda**

1. Welcome and Opening Remarks **Franc**
2. [Resolution](#) Approving the University of Pittsburgh [Audited Financial Statements for the Year Ended June 30, 2021](#) and Independent Auditor and Tax Advisor **Franc**
3. New Business/Adjournment **Franc**

# Resolution

**RESOLUTION OF THE AUDIT COMMITTEE  
APPROVING THE UNIVERSITY OF PITTSBURGH'S  
AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR AND TAX ADVISOR FOR FISCAL YEAR 2022**

WHEREAS, the Mission Statement of the Audit Committee, as approved by the Board of Trustees, provides that the Committee shall assist the Board in fulfilling its oversight responsibilities with respect to the annual financial reporting process, the system of internal controls that management has established, and the internal and independent audit process; and

WHEREAS, the Mission Statement of the Audit Committee further provides that the Committee shall have the power and authority to act on the Board's behalf to appoint, compensate, and oversee the University's independent auditor and the retention of other external professionals as needed; to approve the University's financial statements and the Office of the Auditor General's annual audit; and to perform other duties as delineated in the Audit Committee Charter; and

WHEREAS, in accordance with the charge set forth in its Mission Statement, the Audit Committee has reviewed the University of Pittsburgh Audited Financial Statements for the Year Ended June 30, 2021; and

WHEREAS, the Administration of the University of Pittsburgh has recommended that the Audit Committee approve the appointment of KPMG LLP as the University's Independent Auditor and Tax Advisor for Fiscal Year 2022;

NOW THEREFORE BE IT RESOLVED, that the Audit Committee approves the University's Audited Financial Statements for the Year Ended June 30, 2021, attached hereto as Exhibit A and incorporated herein by this reference; and

BE IT FURTHER RESOLVED, that the Audit Committee approves the appointment of KPMG LLP as the University's Independent Auditor and Tax Advisor for Fiscal Year 2022; and

BE IT FURTHER RESOLVED, that the Audit Committee shall inform the Board of Trustees of these actions.

# **Audited Financial Statements for the Year Ended June 30, 2021**



FISCAL YEAR 2021

FINANCIAL REPORT

## 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, 2021 and 2020, 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, 2021 and 2020, 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.

Pittsburgh, Pennsylvania  
October 14, 2021

CONSOLIDATED BALANCE SHEETS  
 JUNE 30, 2021 AND 2020  
 (in thousands of dollars)

	2021	2020
<b>ASSETS:</b>		
Cash and cash equivalents (Notes 1, 2 and 6)	\$ 76,412	\$ 117,648
Operating investments (Notes 1, 2, 5 and 6)	1,149,262	1,037,526
Inventories and deferred charges	23,598	26,161
Accounts and notes receivable, net (Notes 2 and 3)	262,084	232,318
Contributions receivable, net (Notes 1 and 4)	51,629	56,526
Student loans receivable, net	28,836	32,300
Foundation assets (Note 1)	41,232	35,615
Endowment investments (Notes 5 and 6)	5,680,226	4,203,474
Endowed funds held by third parties (Note 6)	28,858	22,865
Operating lease right-of-use assets, net (Note 7)	255,645	268,368
Property, plant, and equipment, net (Note 8)	2,053,683	1,979,055
<b>TOTAL ASSETS</b>	<b>\$ 9,651,465</b>	<b>\$ 8,011,856</b>
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 128,749	\$ 104,839
Accrued payroll and related liabilities	120,189	105,219
Deferred student and other revenue (Note 1)	54,846	41,609
Advanced receipt of grant funds (Note 1)	93,136	84,961
Refundable U.S. government student loans	22,473	26,000
Other liabilities (Notes 6 and 10)	116,654	144,857
Pension and postretirement obligations (Note 11)	731,837	721,088
Conditional asset remediation obligation (Note 8)	28,079	28,940
Right-of-use lease liabilities (Note 7)	296,134	300,765
Bonds and notes payable (Note 9)	1,510,148	1,452,894
<b>TOTAL LIABILITIES</b>	<b>3,102,245</b>	<b>3,011,172</b>
<b>NET ASSETS:</b>		
Without donor restrictions (Notes 1, 12 and 13)		
Endowment designated for financial aid	2,026,302	1,556,934
Other designated endowments	1,427,632	1,010,788
Net invested in plant and other	747,327	698,087
Total without donor restrictions	4,201,261	3,265,809
With donor restrictions (Notes 1 and 12)		
Endowments (Note 13)	2,205,940	1,618,332
Other	142,019	116,543
Total with donor restrictions	2,347,959	1,734,875
<b>TOTAL NET ASSETS</b>	<b>6,549,220</b>	<b>5,000,684</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 9,651,465</b>	<b>\$ 8,011,856</b>

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

CONSOLIDATED STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2021  
 COMPARED TO SUMMARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2020  
 (in thousands of dollars)

	2021		Total	2020
	Without Donor Restrictions	With Donor Restrictions		
<b>OPERATING REVENUES:</b>				
Tuition and fees (net of tuition discounts of \$252.2 million and \$240.1 million)	\$ 612,193	\$ -	\$ 612,193	\$ 632,622
Commonwealth appropriation	183,132	-	183,132	183,146
Commonwealth construction grants	-	36,376	36,376	27,671
Research grants and contracts	914,459	-	914,459	878,255
Grants and contracts - HEERF	39,506	-	39,506	16,633
Contributions for operations	37,136	14,194	51,330	56,103
Endowment distributions and investment income	178,451	-	178,451	174,968
Sales and services, educational and other	129,845	-	129,845	135,139
Sales and services, auxiliary	97,464	-	97,464	127,317
UPMC academic support (Note 15)	259,803	-	259,803	270,135
Net assets released from restrictions	29,027	(29,027)	-	-
<b>Total operating revenues</b>	<b>2,481,016</b>	<b>21,543</b>	<b>2,502,559</b>	<b>2,501,989</b>
<b>OPERATING EXPENSES:</b>				
Salaries and wages	1,177,103	-	1,177,103	1,164,657
Fringe benefits	333,357	-	333,357	333,071
Total compensation	1,510,460	-	1,510,460	1,497,728
Supplies	115,858	-	115,858	115,591
Business and professional	320,480	-	320,480	348,940
Facilities	92,344	-	92,344	99,600
Depreciation	194,531	-	194,531	194,369
Interest	47,330	-	47,330	42,676
Rent	81,980	-	81,980	61,077
Other	81,157	-	81,157	56,826
<b>Total operating expenses (Note 14)</b>	<b>2,444,140</b>	<b>-</b>	<b>2,444,140</b>	<b>2,416,807</b>
<b>Change in net assets from operating activities</b>	<b>36,876</b>	<b>21,543</b>	<b>58,419</b>	<b>85,182</b>
<b>OTHER ACTIVITIES:</b>				
Investment gains (losses), net of endowment distributions for operations	887,195	559,173	1,446,368	(137,066)
Contributions for endowment	-	32,368	32,368	23,932
Change in fair value of interest rate swaps (Note 10)	30,778	-	30,778	(35,300)
Deferred tax expense (Note 1)	-	-	-	(11,355)
Other components of net periodic benefit cost including special termination (Note 11)	(41,849)	-	(41,849)	(23,586)
Nonperiodic changes in benefit plans (Note 11)	22,452	-	22,452	(69,883)
<b>Total other activities</b>	<b>898,576</b>	<b>591,541</b>	<b>1,490,117</b>	<b>(253,258)</b>
<b>CHANGE IN NET ASSETS</b>	<b>935,452</b>	<b>613,084</b>	<b>1,548,536</b>	<b>(168,076)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>3,265,809</b>	<b>1,734,875</b>	<b>5,000,684</b>	<b>5,168,760</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 4,201,261</b>	<b>\$ 2,347,959</b>	<b>\$ 6,549,220</b>	<b>\$ 5,000,684</b>

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



CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020  
(in thousands of dollars)

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUES:</b>			
Tuition and fees (net of tuition discounts of \$240.1 million)	\$ 632,622	\$ -	\$ 632,622
Commonwealth appropriation	183,146	-	183,146
Commonwealth construction grants	1,838	25,833	27,671
Research grants and contracts	878,255	-	878,255
Grants and contracts - HEERF	16,633	-	16,633
Contributions for operations	41,798	14,305	56,103
Endowment distributions and investment income	174,968	-	174,968
Sales and services, educational and other	135,139	-	135,139
Sales and services, auxiliary	127,317	-	127,317
UPMC academic support (Note 15)	270,135	-	270,135
Net assets released from restrictions	16,989	(16,989)	-
<b>Total operating revenues</b>	<b>2,478,840</b>	<b>23,149</b>	<b>2,501,989</b>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	1,164,657	-	1,164,657
Fringe benefits	333,071	-	333,071
Total compensation	1,497,728	-	1,497,728
Supplies	115,591	-	115,591
Business and professional	348,940	-	348,940
Facilities	99,600	-	99,600
Depreciation	194,369	-	194,369
Interest	42,676	-	42,676
Rent	61,077	-	61,077
Other	56,826	-	56,826
<b>Total operating expenses (Note 14)</b>	<b>2,416,807</b>	<b>-</b>	<b>2,416,807</b>
<b>Change in net assets from operating activities</b>	<b>62,033</b>	<b>23,149</b>	<b>85,182</b>
<b>OTHER ACTIVITIES:</b>			
Investment losses, net of endowment distributions for operations	(71,936)	(65,130)	(137,066)
Contributions for endowment	-	23,932	23,932
Change in fair value of interest rate swaps (Note 10)	(35,300)	-	(35,300)
Deferred tax expense (Note 1)	(11,355)	-	(11,355)
Other components of net periodic benefit cost (Note 11)	(23,586)	-	(23,586)
Nonperiodic changes in benefit plans (Note 11)	(69,883)	-	(69,883)
<b>Total other activities</b>	<b>(212,060)</b>	<b>(41,198)</b>	<b>(253,258)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(150,027)</b>	<b>(18,049)</b>	<b>(168,076)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>3,415,836</b>	<b>1,752,924</b>	<b>5,168,760</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 3,265,809</b>	<b>\$ 1,734,875</b>	<b>\$ 5,000,684</b>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2021 AND 2020  
 (in thousands of dollars)

	2021	2020
<b>CASH AND CASH EQUIVALENTS:</b>		
End of year	\$ 76,412	\$ 117,648
Beginning of year	117,648	10,521
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (41,236)</b>	<b>\$ 107,127</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,548,536	\$ (168,076)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, and amortization of right-of-use assets	237,032	233,595
Deferred tax expense	-	11,355
Other components of net periodic benefit cost	41,849	23,586
Nonperiodic changes in benefit plans	(22,452)	69,883
Amortization of debt issuance costs and bond premiums, net	(649)	836
Loss on disposal of plant assets	1,378	4,124
Investment gains	(1,584,935)	(19,679)
Change in fair value of interest rate swaps	(30,778)	35,300
Contributions restricted for long-term investment	(74,153)	(53,903)
Changes in operating assets and liabilities:		
Accounts, notes, contributions, and loans receivable, net	4,359	48,524
Other assets	2,563	(1,860)
Accounts payable and accrued expenses	8,189	3,722
Pension and postretirement obligations	(8,648)	4,774
Other liabilities	34,569	21,071
Operating leases, net	(42,050)	(35,388)
<b>Net cash provided by operating activities</b>	<b>114,810</b>	<b>177,864</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expended for property, plant, and equipment - University	(225,354)	(219,958)
Expended for property, plant, and equipment - commonwealth	(36,376)	(27,671)
Change in accounts payable for property, plant, and equipment	15,721	(5,118)
Purchases/sales of operating investments, net	(121,495)	(544,174)
Purchases of endowment investments	(3,998,211)	(5,283,533)
Proceeds from sales/maturities of endowment investments	4,110,185	5,419,426
Change in foundation assets and other	(5,642)	(4,746)
<b>Net cash used for investing activities</b>	<b>(261,172)</b>	<b>(665,774)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of debt and other	(151,635)	(202,615)
Proceeds from issuance of debt and other	209,538	754,986
Repayments on credit facilities	-	(106,500)
Borrowings on credit facilities	-	106,500
Principal payments on finance leases	(1,211)	(1,370)
Contributions restricted for long-term investment	48,434	44,036
<b>Net cash provided by financing activities</b>	<b>105,126</b>	<b>595,037</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (41,236)</b>	<b>\$ 107,127</b>
<b>Supplemental disclosure of cash flow information:</b>		
<b>Cash paid for interest (excluding fees)</b>	<b>\$ 48,392</b>	<b>\$ 35,941</b>
<b>Noncash investing activity for property, plant, and equipment:</b>		
<b>Accounts payable</b>	<b>\$ 38,715</b>	<b>\$ 22,994</b>
<b>Finance lease obligations</b>	<b>\$ 8,807</b>	<b>\$ -</b>

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 28,200 students in various undergraduate, graduate, and doctorate-professional programs. Four regional campuses with a total enrollment approximating 5,100 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:

	2021	2020
	<i>(in thousands of dollars)</i>	
Commonwealth appropriation:		
General support	\$ 151,507	\$ 151,507
Rural Education Outreach	3,346	3,346
Supplemental funds – Academic Medical Centers and general support	28,279	28,293
Total commonwealth appropriation	183,132	183,146
Commonwealth construction grants	36,376	27,671
Commonwealth research grants and contracts	14,375	13,712
<b>Total</b>	<b>\$ 233,883</b>	<b>\$ 224,529</b>

**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; other components of net periodic benefit cost including special termination; 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**

The University recognizes revenue as it depicts the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in the exchange. 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 periodically reviewed for collectability.

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

	2021	2020
	<i>(in thousands of dollars)</i>	
Net tuition and fees	\$ 612,193	\$ 632,622
UPMC academic support	259,803	270,135
Sales and services, educational and other	129,845	135,139
Sales and services, auxiliary	97,464	127,317
<b>Total</b>	<b>\$ 1,099,305</b>	<b>\$ 1,165,213</b>

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 72.4% and 72.0% of net tuition and fees in 2021 and 2020, 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 2021 and 2020 were \$252.2 million and \$240.1 million, respectively. The portion of tuition discounts attributable to institutional funds in 2021 and 2020 were \$216.1 million and \$208.3 million, respectively. Tuition discounts attributable to contributions, donor-restricted endowment distributions, and grant activities were \$36.1 million and \$31.8 million in 2021 and 2020, 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 global experiences 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 2021 and 2020 comprised 84.9% and 82.8%, 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 academic 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, 2021 or June 30, 2020.

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 2021 and 2020 was \$34.9 million and \$39.2 million, respectively.

### **Revenue Recognition - Contributions**

The University recognizes revenue from contributions in accordance with the existence, or absence, of conditions placed on the contribution. Revenue from conditional contributions is recognized when the conditions surrounding the contribution or pledge are substantially met, while unconditional contributions are recognized as revenue immediately in the period the contribution or pledge is made.

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 2021 and 2020 amounted to \$283.8 million and \$288.3 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 2021 and 2020 was \$954.0 million and \$894.9 million (including \$39.5 million and \$16.6 million of grants and contracts – HEERF), respectively, with approximately 63% 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 existence, or absence, of 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.

### **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 associated with 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 \$33.2 million and \$31.1 million at June 30, 2021 and 2020, respectively, and other liabilities include \$14.8 million and \$15.6 million at June 30, 2021 and 2020, 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 Consolidated Balance Sheets, 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 \$10.0 million and \$9.0 million has been recorded at June 30, 2021 and 2020, respectively, based upon management's analysis of claims history. This liability is reflected in accrued payroll and related liabilities on the Consolidated Balance Sheets.

The University is also self-insured for other activities, including workers' compensation, unemployment compensation, and certain litigation claims. Liabilities have been established for these programs generally based on third-party administrators' estimates using the University's historical loss experience. The self-insurance accrual is subject to periodic adjustment by the University based on actual loss experience factors. Liabilities for these other self-insured obligations aggregated \$6.2 million and \$10.7 million at June 30, 2021 and 2020, respectively, and are included in accrued payroll and related liabilities on the Consolidated Balance Sheets.

**Recent Accounting Pronouncements**

In September 2020, FASB issued the Accounting Standard Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU is effective for 2022 and should be applied on a retrospective basis. The ASU aims to increase transparency about the measurement of contributed nonfinancial assets recognized and the amount of those contributions used in an entity's programs by requiring specific financial statement presentation along with certain disclosures. The University is currently evaluating the impact this ASU will have on the consolidated financial statements and related disclosures.

In 2021, the University adopted the ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope*. These ASUs provide optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform, i.e., the discontinuation of the London Interbank Offered Rate (LIBOR) or another reference rate in a contract, on financial reporting. The guidance permits an entity, when certain criteria are met, to account prospectively for amendments to contracts made to comply with reference rate reform as a continuation of the existing contract. The University has certain interest-rate exchange agreements (see Note 9) that utilize LIBOR. As LIBOR is expected to be discontinued as a reference rate after 2021, a new reference rate or rates will need to replace LIBOR in these contracts, which the University is currently evaluating. These ASUs did not impact financial results in 2021.

**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 2021 or 2020.



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 such that 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 repealed 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 2020 operating revenue line items include reclassifications related to the presentation of Higher Education Emergency Relief Fund (HEERF) grants and contracts. There was no change in total 2020 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:

	2021	2020
	<i>(in thousands of dollars)</i>	
Cash and cash equivalents	\$ 76,412	\$ 117,648
Operating investments	1,127,701	1,015,898
Accounts and notes receivable, net	262,084	232,318
Payout on designated endowment – financial aid	75,847	75,976
Payout on endowments - other	86,006	82,732
<b>Financial assets available within one year</b>	<b>\$ 1,628,050</b>	<b>\$ 1,524,572</b>

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, 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 consists 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, 2021. No draws were made against the facilities during 2021. Termination dates on the lines of credit available at June 30, 2021 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, 2021 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 were no outstanding balances at June 30, 2020. No draws were made against the facilities during 2021. 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:

	2021	2020
	<i>(in thousands of dollars)</i>	
Sponsored grant receivables, net	\$ 158,696	\$ 147,453
Plant construction receivables due from commonwealth	45,000	18,692
Other receivables, net	20,343	22,119
Hospitals and affiliated organizations receivables, net	14,568	37,386
Student receivables, net	12,290	6,668
Commonwealth appropriation receivable	11,187	-
<b>Total accounts and notes receivable, net</b>	<b>\$ 262,084</b>	<b>\$ 232,318</b>

## NOTE 4: CONTRIBUTIONS RECEIVABLE, NET

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

	2021	2020
	<i>(in thousands of dollars)</i>	
Amounts due in:		
Less than one year	\$ 19,008	\$ 20,051
One to five years	31,250	31,299
Greater than five years	4,210	7,527
Gross contributions receivable	54,468	58,877
Less:		
Allowance for uncollectible pledges	(1,702)	(1,650)
Unamortized discounts	(1,137)	(701)
<b>Total contributions receivable, net</b>	<b>\$ 51,629</b>	<b>\$ 56,526</b>

At both June 30, 2021 and 2020, the five largest outstanding pledge balances represented 49% 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 \$320.4 million and \$298.0 million at June 30, 2021 and 2020, 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:

	2021	2020
	<i>(in thousands of dollars)</i>	
Endowment investments:		
Pooled	\$ 5,633,575	\$ 4,160,404
Nonpooled	46,651	43,070
Subtotal endowment investments	5,680,226	4,203,474
Operating investments	1,149,262	1,037,526
<b>Total endowment and operating investments</b>	<b>\$ 6,829,488</b>	<b>\$ 5,241,000</b>
Composition of endowment investments:		
Cash equivalents	\$ 288,581	\$ 237,390
Domestic equities	498,674	386,263
International equities	924,067	824,176
U.S. government and government agencies' securities, bank acceptances and certificates, and commercial paper	176,643	151,707
Corporate bonds and other obligations	43,350	44,475
Alternative investment funds, partnerships, and exchange traded funds:		
Marketable alternatives	1,019,270	900,912
Nonmarketable alternatives	1,784,728	965,100
Real assets	944,913	693,451
<b>Total endowment investments</b>	<b>\$ 5,680,226</b>	<b>\$ 4,203,474</b>
Composition of operating investments:		
U.S. government and government agencies' securities, repurchase agreements, and commercial paper	\$ 693,903	\$ 594,460
Corporate bonds and other obligations	430,797	419,763
Other	24,562	23,303
<b>Total operating investments</b>	<b>\$ 1,149,262</b>	<b>\$ 1,037,526</b>

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, 2021 and 2020, for which NAV was used as a practical expedient to estimate fair value:

Asset Class	Fair Value Determined Using NAV		Unfunded Commitments at June 30, 2021	Redemption Frequency	Redemption Notice Period
	2021	2020			
<i>(in thousands of dollars)</i>					
International equities	\$ 579,276	\$ 400,666	\$ -	30 days-3 years	30-90 days
Marketable alternatives:					
Redeemable within one year	696,016	704,963	-	30-365 days	30-90 days
Redeemable beyond one year	217,950	129,399	-	1-3 years	60-90 days
Nonredeemable	81,002	35,701	19,770	NA	NA
Total marketable alternatives	994,968	870,063	19,770		
Nonmarketable alternatives	1,784,728	965,100	698,917	NA	NA
Real assets - Nonredeemable	944,913	693,451	614,737	NA	NA
<b>Total</b>	<b>\$ 4,303,885</b>	<b>\$ 2,929,280</b>	<b>\$ 1,333,424</b>		

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 six 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, 2021 and 2020:

	2021			Total
	Level 1	Level 2	Level 3	
Assets	<i>(in thousands of dollars)</i>			
Cash equivalents	\$ 49,395	\$ 27,017	\$ -	\$ 76,412
Endowment investments:				
Cash equivalents	150,865	137,716	-	288,581
Domestic equities	420,328	78,346	-	498,674
International equities	344,227	-	564	344,791
U.S. government, corporate bonds, and other obligations	201,214	15,000	3,779	219,993
Marketable alternatives	24,129	173	-	24,302
Subtotal endowment investments <sup>(1)</sup>	1,140,763	231,235	4,343	1,376,341
Operating investments:				
U.S. government, corporate bonds, and other obligations	969,003	155,697	-	1,124,700
Other	3,001	-	21,561	24,562
Endowed funds held by third parties	-	-	28,858	28,858
<b>Total assets</b>	<b>\$ 2,162,162</b>	<b>\$ 413,949</b>	<b>\$ 54,762</b>	<b>\$ 2,630,873</b>
Liabilities				
Interest rate swaps	\$ -	\$ 82,076	\$ -	\$ 82,076

	2020			
	Level 1	Level 2	Level 3	Total
Assets	<i>(in thousands of dollars)</i>			
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
Subtotal endowment investments <sup>(1)</sup>	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
<b>Total assets</b>	<b>\$ 2,058,778</b>	<b>\$ 345,183</b>	<b>\$ 48,272</b>	<b>\$ 2,452,233</b>
Liabilities				
Interest rate swaps	\$ -	\$ 112,854	\$ -	\$ 112,854

(1) The subtotals of endowment investments within the fair value tables above exclude investments of \$4,303,885 and \$2,929,280 as of June 30, 2021 and 2020, 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, 2021 and 2020:

	International Equities	U.S. Government Corporate and Other	Other Operating and Endowed Funds Held by Third Parties	Total
	<i>(in thousands of dollars)</i>			
<b>Fair Value - June 30, 2019</b>	\$ 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)
<b>Fair Value - June 30, 2020</b>	\$ -	\$ 3,779	\$ 44,493	\$ 48,272
Capital calls/purchases	758	-	309	1,067
Distributions/sales	(272)	-	(3,181)	(3,453)
Realized gains	32	-	644	676
Unrealized gains	46	-	8,154	8,200
<b>Fair Value - June 30, 2021</b>	<b>\$ 564</b>	<b>\$ 3,779</b>	<b>\$ 50,419</b>	<b>\$ 54,762</b>

## NOTE 7: LEASES

The University has operating and finance leases for campus facilities, office space, equipment and vehicles. Right-of-use (ROU) 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 ROU 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, follow:

	Location on Consolidated Balance Sheets	2021	2020
<i>(in thousands of dollars)</i>			
Assets:			
Operating lease assets	Operating lease right-of-use assets, net	\$ 255,645	\$ 268,368
Finance lease assets <sup>(a)</sup>	Property, plant and equipment, net	31,945	25,912
<b>Total lease assets</b>		<b>\$ 287,590</b>	<b>\$ 294,280</b>
Liabilities:			
Operating lease liabilities	Right-of-use lease liabilities	\$ 260,323	\$ 272,549
Finance lease liabilities	Right-of-use lease liabilities	35,811	28,216
<b>Total lease liabilities</b>		<b>\$ 296,134</b>	<b>\$ 300,765</b>

(a) Finance lease assets are recorded net of accumulated depreciation of \$17.0 million and \$14.2 million as of June 30, 2021 and 2020, respectively.

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

	Location on Consolidated Statements of Activities	2021	2020
<i>(in thousands of dollars)</i>			
Operating lease expense	Rent	\$ 49,533	\$ 46,101
Finance lease expense			
Amortization of ROU assets	Depreciation	2,774	2,967
Interest on lease liabilities	Interest	1,902	1,544
Short-term lease expense	Rent	21,759	1,719
Variable lease expense	Rent	12,939	13,773
<b>Total lease cost</b>		<b>\$ 88,907</b>	<b>\$ 66,104</b>

The University recognized \$2.1 million and \$2.9 million in sublease income included in sales and services, educational and other in the Consolidated Statements of Activities for the years ended June 30, 2021 and 2020, respectively.



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

Weighted average remaining lease term (years):	2021	2020
Operating leases	7.34	8.19
Finance leases	13.17	13.66
Weighted average discount rate:		
Operating leases	2.48%	2.69%
Finance leases	4.05%	4.43%

Supplemental cash flow information related to leases as of and for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
	<i>(in thousands of dollars)</i>	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows paid for operating leases	\$ 49,055	\$ 45,269
Operating cash flows paid for interest portion of finance leases	\$ 1,902	\$ 1,544
Financing cash flows paid for principal portion of finance leases	\$ 1,211	\$ 1,370
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 26,483	\$ 113,681
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 8,807	\$ -

The approximate future minimum lease payments under operating and financing leases as of June 30, 2021 are as follows:

	Operating Leases	Finance Leases
	<i>(in thousands of dollars)</i>	
2022	\$ 47,486	\$ 3,560
2023	44,639	3,591
2024	41,123	3,664
2025	35,222	3,595
2026	32,883	3,627
Thereafter	88,877	30,714
Total lease payments	290,230	48,751
Less: imputed interest	(29,907)	(12,940)
<b>Present value of lease liabilities</b>	<b>\$ 260,323</b>	<b>\$ 35,811</b>

Approximate future minimum 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
	<i>(in thousands of dollars)</i>
2022	\$ 14,885
2023	13,348
2024	10,877
2025	9,883
2026	1,501
Thereafter	2,231
<b>Total</b>	<b>\$ 52,725</b>

## NOTE 8: PROPERTY, PLANT, AND EQUIPMENT, NET

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

	2021	2020
	<i>(in thousands of dollars)</i>	
Land	\$ 78,916	\$ 77,429
Buildings and improvements	3,676,157	3,563,075
Equipment	877,536	843,148
Library books	333,340	320,146
Works of art, historical treasures, and similar assets	24,915	22,739
Construction in progress	315,371	220,345
Subtotal	5,306,235	5,046,882
Less: Accumulated depreciation	(3,252,552)	(3,067,827)
<b>Total property, plant, and equipment, net</b>	<b>\$ 2,053,683</b>	<b>\$ 1,979,055</b>

The amount capitalized in property, plant, and equipment related to expenditures funded by the commonwealth on behalf of the University totaled \$796.1 million and \$784.1 million at June 30, 2021 and 2020, respectively. The net book value of these items was \$293.4 million and \$307.6 million at June 30, 2021 and 2020, 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 retirement obligations recognized at June 30, 2021 and 2020 was \$28.1 million and \$28.9 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	2021 Effective Interest Rates	Outstanding Principal <i>(in thousands of dollars)</i>	
			2021	2020
Variable-rate bonds and notes:				
Series 2014-B1/B2, tax-exempt	4-14	0.14%-0.50%	\$ 46,000	\$ 46,000
Series 2018 PANTHER™ Notes		0.36%-3.10%	-	110,000
Series 2019 PANTHER™ Notes, due February 15, 2024		0.37%-0.56%	200,000	200,000
<b>Total variable-rate bonds and notes</b>			<b>246,000</b>	<b>356,000</b>
Fixed-rate bonds and notes:				
Series 2017-A, taxable	3 mos.-15	2.12%-3.65%	352,700	393,300
Series 2017-B, taxable	3 mos.-9	2.06%-3.60%	100,285	101,320
Series 2014-A, tax-exempt	15-23	3.51%-3.65%	49,000	49,000
Series 2017-C, taxable	10-20	2.53%-3.01%	160,000	160,000
Series 2019-A, taxable	98	3.56%	400,000	400,000
Series 2021 PANTHER™ Notes, due April 15, 2026		0.63%	181,265	-
Noninterest-bearing promissory note			171	171
<b>Total fixed-rate bonds</b>			<b>1,243,421</b>	<b>1,103,791</b>
Unamortized net premium			28,977	1,213
Debt issuance costs			(8,250)	(8,110)
<b>Total bonds and notes payable</b>			<b>\$1,510,148</b>	<b>\$1,452,894</b>

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

2022	\$ 41.2
2023	\$ 39.4
2024	\$ 240.8
2025	\$ 39.7
2026	\$ 218.2

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 to 180 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 April 2021, the University issued its Pitt Asset Notes – Tax-Exempt Higher Education Registered Series of 2021 (Series 2021 PANTHERS™ Notes) with a par amount of \$181.3 million to reimburse the University for prior capital and equipment expenditures. These five-year fixed rate notes will mature on April 15, 2026.

Interest expense incurred in 2021 and 2020 was \$47.3 million and \$42.7 million, respectively. Included in these amounts are net swap payments and capitalized interest associated with various construction projects. Capitalized interest for 2021 and 2020 was \$2.4 million and \$0.9 million, respectively.

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#### 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 \$280.3 million and \$332.5 million at June 30, 2021 and 2020, 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 \$6.6 million and \$11.9 million on these future and total return swap contracts at June 30, 2021 and June 30, 2020, 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 \$82.1 million and \$112.9 million at June 30, 2021 and 2020, 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 gains of \$30.8 million in 2021 and unrealized losses of \$35.3 million in 2020 due to changes in fair value of the swaps.

The aggregate notional amount of the swap agreements associated with University debt was \$300.3 million and \$315.3 million at June 30, 2021 and 2020, 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 2021 or 2020 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 2021 and 2020 were \$90.1 million and \$90.5 million, respectively.

The noncontributory plan is a defined-benefit pension plan that covers employees who do not participate in the contributory plan. The plan was amended to freeze new entrants effective November 3, 2015. The plan provides for vesting after five years with pension benefits accruing at 2.1% of base salary or the Social Security wage base, whichever is lower. Pension benefits are payable upon normal retirement at age 65 or early retirement at age 55, in accordance with the conditions and pension eligibility criteria described in the plan. University contributions to this plan in 2021 and 2020 were \$11.2 million and \$6.7 million, respectively.

**Postretirement**

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

Though funding is not required, the University has elected to fund its postretirement liability via a Board designated endowment fund, which is managed within the University's pooled endowment investments (see Notes 5 and 13). The fair value of this fund at June 30, 2021 and 2020 was \$666.2 million and \$479.1 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.

**Retirement Incentive Programs**

During 2021, retirement incentives were offered to various groups.

- The Faculty Retirement Incentive Program (FRIP) was offered to faculty members who were at least age 65 as of August 1, 2020 and had at least 10 years of continuous service with the University. Retirees must have retired between May 21, 2020 and August 31, 2020.
- The Staff Early Retirement Program (SERP) was offered to staff members who were at least age 59 as of May 1, 2020 and had a least 10 years of continuous service with the University at the time of retirement. Retirees must have retired by September 30, 2020.
- The Union Staff Early Retirement Program (USERP) was offered to union staff members who were at least age 59 as of September 1, 2020 and had a least 10 years of continuous service with the University at the time of retirement. Retirees must have retired by April 30, 2021.

All retirees who retired under one of these incentives was eligible for a lump sum cash separation payment and eligible to continue their medical plan at no cost to the retired member or their dependents until becoming Medicare eligible. Dependents are covered until age 26 or until the later of the retiree or spouse/domestic partner becoming Medicare eligible. The separation payments, along with accumulated vacation and sick-day payments, aggregate \$26.5 million and are recognized in the Consolidated Statement of Activities. The June 30, 2021 postretirement benefit obligation includes \$15.9 million related to the accelerated vesting for these programs.

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, 2021 and 2020 is summarized in the table below:

	Defined-Benefit Plan		Postretirement Plan	
	2021	2020	2021	2020
	<i>(in thousands of dollars)</i>			
Service cost	\$ 8,226	\$ 7,361	\$ 27,241	\$ 22,511
Other components of net periodic benefit cost:				
Interest cost	\$ 7,805	\$ 7,599	\$ 18,758	\$ 21,056
Expected return on plan assets	(11,976)	(11,321)	-	-
Actuarial loss	7,145	3,090	4,239	3,162
Special termination benefit	-	-	15,877	-
<b>Total</b>	\$ 2,974	\$ (632)	\$ 38,874	\$ 24,218
<b>Funded status:</b>				
Benefit obligation at beginning of year	\$ 255,377	\$ 202,191	\$ 634,499	\$ 579,034
Service cost	8,226	7,361	27,241	22,511
Interest cost	7,805	7,599	18,758	21,056
Actuarial (gain) loss	(3,830)	39,987	22,940	30,267
Benefits paid	(2,048)	(1,761)	(17,037)	(18,369)
<b>Benefit obligation at end of year</b>	\$ 265,530	\$ 255,377	\$ 686,401	\$ 634,499
Fair value of plan assets at beginning of year	\$ 168,788	\$ 158,380		
Actual return on plan assets	42,154	5,441		
Actual plan contributions	11,200	6,728		
Benefits paid	(2,048)	(1,761)		
<b>Fair value of plan assets at end of year</b>	\$ 220,094	\$ 168,788		
<b>Funded status – liability recognized on Consolidated Balance Sheets:</b>				
<b>Pension and postretirement obligations</b>	\$ (45,436)	\$ (86,589)	\$ (686,401)	\$ (634,499)
<b>Accumulated benefit obligation</b>	\$ 254,974	\$ 243,521		
Estimated 2022 employer contribution to the defined-benefit plan:				
<i>(in thousands of dollars)</i>		\$ 4,298		

	Defined-Benefit Plan		Postretirement Plan	
	2021	2020	2021	2020
<b>Weighted-average assumptions used to determine the benefit obligation (liability) at June 30:</b>				
Discount rate	3.15%	3.1%	3.0%	3.0%
Rate of compensation increase	3.0%	3.0%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.0%	6.75%
Initial trend – post-age 65 retirees	-	-	6.5%	6.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2031	2030
Mortality rate table	Pri-2012	Pri-2012	Pri.H-2012	Pri.H-2012
Mortality improvement scale	MP-2020	MP-2019	MP-2020	MP-2019

**Weighted-average assumptions used to determine the net periodic cost (expense) for the years ended June 30:**

Discount rate	3.1%	3.8%	3.0%	3.7%
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%	6.75%
Initial trend – post-age 65 retirees	-	-	6.0%	6.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2030	2027

**Estimated future benefit payments:**

	Defined-Benefit Plan		Postretirement Plan	
	<i>(in thousands of dollars)</i>			
2022	\$	9,589	\$	25,421
2023	\$	6,197	\$	27,700
2024	\$	6,706	\$	28,039
2025	\$	7,197	\$	28,736
2026	\$	7,739	\$	29,533
2027 – 2031	\$	46,764	\$	165,376

### 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, 2021 and 2020 was \$220.1 million and \$168.8 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 years and the fair value of the University's pension plan assets at June 30, by asset category, were as follows:

Asset class:	Target Allocation	2021	2020
		<i>(in thousands of dollars)</i>	
Equity securities:			
Stock index and small cap	35%	\$ 77,731	\$ 58,918
International	35%	76,142	58,573
Debt securities	30%	65,972	50,762
Cash and cash equivalents	-	249	535
<b>Total pension plan assets</b>		<b>\$ 220,094</b>	<b>\$ 168,788</b>



## NOTE 12: NET ASSETS

Net assets at June 30 consist of the following:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(in thousands of dollars)</i>		
Endowments – instruction and academic support	\$ -	\$ 1,425,671	\$ 1,425,671
Endowments – financial aid	-	509,061	509,061
Endowments – other	-	271,208	271,208
Endowment designated for financial aid	2,026,302	-	2,026,302
Endowment designated for postretirement benefits	666,171	-	666,171
Endowments designated for schools and other	761,461	-	761,461
<b>Total endowment net assets</b>	<b>3,453,934</b>	<b>2,205,940</b>	<b>5,659,874</b>
Net invested in plant and other	747,327	58,571	805,898
Pledges, loan funds, and other	-	83,448	83,448
<b>Total net assets</b>	<b>\$ 4,201,261</b>	<b>\$ 2,347,959</b>	<b>\$ 6,549,220</b>

  

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(in thousands of dollars)</i>		
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
<b>Total endowment net assets</b>	<b>2,567,722</b>	<b>1,618,332</b>	<b>4,186,054</b>
Net invested in plant and other	698,087	32,444	730,531
Pledges, loan funds, and other	-	84,099	84,099
<b>Total net assets</b>	<b>\$ 3,265,809</b>	<b>\$ 1,734,875</b>	<b>\$ 5,000,684</b>

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 \$833.2 million and \$793.9 million as of June 30, 2021 and 2020, 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 both 2021 and 2020, the endowment distributed \$76.0 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 \$21.3 million and \$19.5 million in 2021 and 2020, respectively, and were returned to principal. Postretirement liabilities of \$686.4 million as of June 30, 2021 and \$634.5 million as of June 30, 2020 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 only 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, 2021 and 2020 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(in thousands of dollars)</i>		
<b>Endowment net assets – June 30, 2019</b>	\$ 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
<b>Endowment net assets – June 30, 2020</b>	<b>2,567,722</b>	<b>1,618,332</b>	<b>4,186,054</b>
Endowment return:			
Endowment earnings	18,582	3,841	22,423
Gains	1,032,859	550,560	1,583,419
Total endowment return	1,051,441	554,401	1,605,842
Contributions	109	33,207	33,316
Distributions for operations	(161,853)	-	(161,853)
Net transfers	(3,485)	-	(3,485)
<b>Endowment net assets – June 30, 2021</b>	<b>\$ 3,453,934</b>	<b>\$ 2,205,940</b>	<b>\$ 5,659,874</b>

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:

	2021					
	Program Services					Total
	Academics	Research and Related	Student Services	Auxiliary Enterprises	Support Services	
	<i>(in thousands of dollars)</i>					
Salaries and wages	\$ 577,904	\$ 406,775	\$ 79,093	\$ 23,009	\$ 90,322	\$ 1,177,103
Fringe benefits	159,037	114,545	26,210	7,320	26,245	333,357
Total compensation	736,941	521,320	105,303	30,329	116,567	1,510,460
Supplies	26,307	75,641	6,429	2,414	5,067	115,858
Business and professional	32,042	180,475	24,781	39,552	43,630	320,480
Facilities	40,725	21,045	8,628	15,825	6,121	92,344
Depreciation	86,654	45,702	20,290	28,191	13,694	194,531
Interest	20,287	10,799	4,750	8,288	3,206	47,330
Rent	22,283	27,681	1,825	24,653	5,538	81,980
Other	21,254	11,285	25,771	20,710	2,137	81,157
Total operating expenses	986,493	893,948	197,777	169,962	195,960	2,444,140
Other components of net periodic benefit cost	20,546	14,462	2,812	818	3,211	41,849
<b>Total</b>	<b>\$ 1,007,039</b>	<b>\$ 908,410</b>	<b>\$ 200,589</b>	<b>\$ 170,780</b>	<b>\$ 199,171</b>	<b>\$ 2,485,989</b>

	2020					
	Program Services					Total
	Academics	Research and Related	Student Services	Auxiliary Enterprises	Support Services	
	<i>(in thousands of dollars)</i>					
Salaries and wages	\$ 574,557	\$ 397,465	\$ 80,123	\$ 21,114	\$ 91,398	\$ 1,164,657
Fringe benefits	160,672	111,603	26,432	7,439	26,925	333,071
Total compensation	735,229	509,068	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	986,045	873,597	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
<b>Total</b>	<b>\$ 996,372</b>	<b>\$ 882,955</b>	<b>\$ 203,591</b>	<b>\$ 152,140</b>	<b>\$ 205,335</b>	<b>\$ 2,440,393</b>

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; 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, 2021 and 2020:

Service Agreement	Location on the Consolidated Financial Statements	2021	2020
		<i>(in thousands of dollars)</i>	
Common paymaster arrangement <sup>(a)</sup>	Net on balance sheet	\$ 32,057	\$ 33,450
Facilities-related services, mail, telephone, printing, and other services <sup>(a)</sup>	Net on balance sheet	14,219	17,442
<b>Accounts and notes receivable, net with UPMC</b>		<b>\$ 46,276</b>	<b>\$ 50,892</b>
UPMC dean's tax, Children's Hospital of Pittsburgh, and other academic support <sup>(b)</sup>	UPMC academic support	\$ 101,216	\$ 118,834
UPMC dual faculty support <sup>(c)</sup>	UPMC academic support	82,397	82,310
UPMC academic affiliation agreement <sup>(d)</sup>	UPMC academic support	32,000	31,500
UPMC Hillman Cancer Center research support payments <sup>(e)</sup>	UPMC academic support	23,532	16,876
UPMC grant revenue <sup>(f)</sup>	Research grants and contracts	23,150	15,447
Rental revenue <sup>(g)</sup>	UPMC academic support	9,557	10,496
Health Sciences Library System <sup>(h)</sup>	UPMC academic support	5,609	5,189
Cost sharing for Medical and Health Sciences Foundation <sup>(i)</sup>	UPMC academic support	3,602	3,635
Institute for Personalized Medicine	UPMC academic support	1,890	1,295
UPMC Enterprises	Contributions for operations	-	455
<b>Revenues from UPMC</b>		<b>\$ 282,953</b>	<b>\$ 286,037</b>
Health insurance coverage for University employees <sup>(j)</sup>	Fringe benefits	\$ 143,643	\$ 135,650
WPIC and UPMC Hillman Cancer Center research services <sup>(k)</sup>	Primarily compensation	26,238	26,558
Rental expense paid to UPMC <sup>(g)</sup>	Rent	15,365	24,161
<b>Expenses paid to UPMC</b>		<b>\$ 185,246</b>	<b>\$ 186,369</b>

- (a) Certain University SOM faculty and staff provide services through their University appointments to UPMC, UPP, and affiliated hospitals. The University invoices these entities monthly for reimbursement of the associated compensation costs. SOM faculty members, having both a University academic appointment and a separate, external appointment to UPMC or one of its affiliates, 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.
- (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 2021 and 2020. Included in property, plant, and equipment is \$186.5 million and \$183.3 million at June 30, 2021 and 2020, respectively, related to the land, buildings, and equipment used by WPIC. Accumulated depreciation related to these assets totaled \$164.5 million and \$160.8 million at June 30, 2021 and 2020, respectively.

## NOTE 16: COMMITMENTS AND CONTINGENCIES

**Coronavirus Pandemic**

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 University's campuses. 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 remained open the entirety of the 2021 academic year primarily under a guarded posture, which imposed certain safety restrictions on the University community.

Through the Higher Education Emergency Relief Fund (HEERF), the University distributed student emergency grants of approximately \$15.6 million and \$10.6 million in 2021 and 2020, respectively. Total revenues of \$39.5 million and \$16.6 million are recognized as grants and contracts – HEERF in the Consolidated Statements of Activities in 2021 and 2020, respectively, including the portion allocable to meet institutional needs. While the start of the 2022 academic year began with students on campus, many faculty and staff remain working in a remote environment. Given the uncertainty over new variants and possible governmental emergency directives, there is no timetable for when campus operations will return to normal.

The COVID-19 pandemic has negatively affected national, state, and local economies; 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 University 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, research and public service missions.

**Other Commitments and Contingencies**

At June 30, 2021 and 2020, the University had outstanding contractual commitments of \$165.3 million and \$265.8 million, respectively, for property, plant, and equipment expenditures.

In May 2019, the University entered an agreement with a third-party to develop a mixed-use facility consisting of office, laboratory and parking space on property owned by the University. The University agreed to lease this property to the developer for 65 years, and upon the facilities completion in fall 2021, will lease a portion of the facility for research and academic purposes. The University's lease of the facility, which has multiple renewal options, has an initial term of 16 years at approximately \$16.0 million per year and will be recognized on the Consolidated Balance Sheets upon commencement.

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.

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#### NOTE 17: SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 14, 2021, 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 2021

<b>MEMBERS EX OFFICIO (NONVOTING)</b>  Tom W. Wolf, Governor of the Commonwealth of Pennsylvania  Noe Ortega, Secretary of Education of the Commonwealth of Pennsylvania  Rich Fitzgerald, Allegheny County Executive  William Peduto, Mayor of the City of Pittsburgh	2020 – 2024 John A. Barbour Edward J. Grefenstette Patricia D. Horoho John H. Pelusi Jr. Marna Cupp Whittington  2021 – 2025 Sundaa Bridgett-Jones Roberta A. Luxbacher Thomas E. Richards Adam C. Walker	<b>ALUMNI TRUSTEES</b>  2018 – 2022 Jane Bilewicz Allred Gary T. Brownlee  2019 – 2023 Michael G. Wells  2020 – 2024 Lisa A. Golden S. Jeffrey Kondis  2021 – 2025 Larry J. Merlo	<b>EMERITUS TRUSTEES</b>  Thomas G. Bigley Suzanne W. Broadhurst Michael A. Bryson John G. Conomikes George A. Davidson Jr. Catherine D. DeAngelis Herbert P. Douglas Jr. D. Michael Fisher E. Jeanne Gleason J. Roger Glunt Earl F. Hord Paul E. Lego Robert G. Lovett George L. Miles Jr. Frank E. Mosier Alfred L. Moyé Martha Hartle Munsch Thomas H. O'Brien Anthony J. F. O'Reilly Robert A. Paul Robert P. Randall James C. Roddey Farrell Rubenstein Richard P. Simmons Charles M. Steiner William E. Strickland Jr. John A. Swanson Burton M. Tansky Stephen R. Tritch Thomas J. Usher Sam S. Zacharias
<b>MEMBER EX OFFICIO (VOTING)</b>  Patrick Gallagher, Chancellor and Chief Executive Officer	<b>SPECIAL TRUSTEES</b>  2018 – 2022 Wen-Ta Chiu David J. Morehouse  2019 – 2023 Robert O. Agbede G. Nicholas Beckwith III Thomas M. Kurtz Jeannine T. Schoenecker	<b>COMMONWEALTH TRUSTEES</b>  <i>G: Governor appointment</i> <i>H: House appointment</i> <i>S: Senate appointment</i>  2017 – 2021 Sy Holzer (G) Thomas VanKirk (H) William K. Lieberman (S)	
<b>TERM TRUSTEES</b>  2018 – 2022 Mary Ellen Callahan Vaughn S. Clagette James P. Covert Keith E. Schaefer  2019 – 2023 Douglas M. Browning Louis R. Cestello David C. Chavern Deborah J. Gillotti	2020 – 2024 John P. Gismondi Marlee S. Myers Arthur J. Rooney II  2021 – 2025 Majdi B. Abulaban SaLisa L. Berrien Hui Debra Cen Tamara M. Haddad Bryan S. Salesky Herbert S. Shear	2018 – 2022 John A. Maher III (H) John J. Verbanac (S) Vacant (G)  2019 – 2023 Jake Wheatley Jr. (G) Diane P. Holder (H) Peter C. Varischetti (S)  2020 – 2024 Bradley J. Franc (G) Natalie Mihalek (H) Jay Costa Jr. (S)	

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.