UNIVERSITY OF PITTSBURGH

FINANCIAL REPORT

FISCAL YEAR 2015

KPMG LLP
BNY Mellon Center
Suite 3400
500 Grant Street
Pittsburgh, PA 15219-2598

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of the University of Pittsburgh – Of the Commonwealth System of Higher Education (the University), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Pittsburgh – Of the Commonwealth System of Higher Education as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Pittsburgh, Pennsylvania
September 24, 2015

UNIVERSITY OF PITTSBURGH
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2015 AND 2014
(in thousands of dollars)

	2015	2014
ASSETS:		
Cash and cash equivalents *(Notes 1 and 5)*	$ 49,582	$ 60,831
Operating investments *(Notes 4 and 5)*	569,806	539,378
Inventories and deferred charges	20,546	19,258
Accounts and notes receivable, net *(Note 2)*	143,498	160,875
Contributions receivable, net *(Note 3)*	34,545	34,336
Student loans receivable, net	45,852	47,485
Deposits of bond proceeds *(Notes 1 and 5)*	19,291	-
Foundation assets *(Note 1)*	26,419	26,006
Endowment investments *(Notes 4 and 5)*	3,610,395	3,514,183
Endowed funds held by third parties *(Note 5)*	23,140	22,714
Property, plant, and equipment, net *(Note 6)*	1,785,749	1,795,335
TOTAL ASSETS	$ 6,328,823	$ 6,220,401
LIABILITIES:		
Accounts payable and accrued expenses	$ 98,125	$ 100,952
Accrued payroll and related liabilities	72,507	70,344
Deferred student and other revenue	45,252	42,638
Advanced receipt of grant funds	60,596	63,768
Refundable U.S. government student loans	33,647	33,280
Other liabilities *(Notes 5 and 9)*	116,071	107,982
Pension and postretirement obligations *(Note 10)*	479,334	444,025
Conditional asset remediation obligation *(Note 7)*	41,219	40,929
Bonds and notes payable *(Note 8)*	981,632	943,144
TOTAL LIABILITIES	1,928,383	1,847,062
NET ASSETS:		
Unrestricted *(Notes 1 and 11)*	2,911,882	2,876,556
Temporarily restricted *(Notes 1 and 11)*	804,388	848,626
Permanently restricted *(Notes 1 and 11)*	684,170	648,157
TOTAL NET ASSETS	4,400,440	4,373,339
TOTAL LIABILITIES AND NET ASSETS	$ 6,328,823	$ 6,220,401

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

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
COMPARED TO SUMMARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2014
(in thousands of dollars)

	2015				
OPERATING REVENUES:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2014
Tuition and fees	$ 751,766	$ -	$ -	$ 751,766	$ 724,080
Tuition discounts	(171,133)	-	-	(171,133)	(162,642)
Net tuition and fees	580,633	-	-	580,633	561,438
Commonwealth appropriation	147,392	-	-	147,392	147,797
Commonwealth construction grants	37,513	-	-	37,513	40,392
Grants and contracts	713,892	-	-	713,892	697,577
Contributions for operations	33,537	11,520	-	45,057	47,047
Investment income – operating investments	5,401	-	-	5,401	5,618
Endowment distributions for operations	101,886	-	-	101,886	96,629
Sales and services, educational and other	185,224	-	-	185,224	161,785
Sales and services, auxiliary	146,789	-	-	146,789	140,189
Rental revenue	18,212	-	-	18,212	17,780
Other	78,916	-	-	78,916	89,601
Net assets released from restrictions	12,521	(12,521)	-	-	-
Total operating revenues	2,061,916	(1,001)	-	2,060,915	2,005,853
OPERATING EXPENSES:					
Salaries and wages	883,682	-	-	883,682	866,178
Fringe benefits	268,999	-	-	268,999	255,279
Total compensation	1,152,681	-	-	1,152,681	1,121,457
Supplies	107,841	-	-	107,841	101,930
Business and professional	336,643	-	-	336,643	298,161
Utilities	48,974	-	-	48,974	48,719
Maintenance and facilities	46,410	-	-	46,410	44,046
Depreciation	168,539	-	-	168,539	159,266
Interest	43,124	-	-	43,124	42,559
Other	56,493	-	-	56,493	64,954
Total operating expenses ***(Note 12)***	1,960,705	-	-	1,960,705	1,881,092
Change in net assets from operating activities	101,211	(1,001)	-	100,210	124,761
OTHER ACTIVITIES:					
Investment (losses) gains, net of endowment distributions for operations	(34,030)	(43,237)	2,111	(75,156)	446,570
Contributions for endowment	-	-	33,902	33,902	23,755
Change in fair value of interest rate swaps	(7,315)	-	-	(7,315)	(1,343)
Nonperiodic changes in benefit plans *(Note 10)*	(24,540)	-	-	(24,540)	(23,518)
Total other activities	(65,885)	(43,237)	36,013	(73,109)	445,464
CHANGE IN NET ASSETS	35,326	(44,238)	36,013	27,101	570,225
NET ASSETS, BEGINNING OF YEAR	2,876,556	848,626	648,157	4,373,339	3,803,114
NET ASSETS, END OF YEAR	$ 2,911,882	$ 804,388	$ 684,170	$ 4,400,440	$ 4,373,339

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

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(in thousands of dollars)

	2014			
OPERATING REVENUES:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Tuition and fees	$ 724,080	$ -	$ -	$ 724,080
Tuition discounts	(162,642)	-	-	(162,642)
Net tuition and fees	561,438	-	-	561,438
Commonwealth appropriation	147,797	-	-	147,797
Commonwealth construction grants	40,392	-	-	40,392
Grants and contracts	697,577	-	-	697,577
Contributions for operations	35,923	11,124	-	47,047
Investment income – operating investments	5,618	-	-	5,618
Endowment distributions for operations	96,629	-	-	96,629
Sales and services, educational and other	161,785	-	-	161,785
Sales and services, auxiliary	140,189	-	-	140,189
Rental revenue	17,780	-	-	17,780
Other	89,601	-	-	89,601
Net assets released from restrictions	12,633	(12,633)	-	-
Total operating revenues	2,007,362	(1,509)	-	2,005,853
OPERATING EXPENSES:				
Salaries and wages	866,178	-	-	866,178
Fringe benefits	255,279	-	-	255,279
Total compensation	1,121,457	-	-	1,121,457
Supplies	101,930	-	-	101,930
Business and professional	298,161	-	-	298,161
Utilities	48,719	-	-	48,719
Maintenance and facilities	44,046	-	-	44,046
Depreciation	159,266	-	-	159,266
Interest	42,559	-	-	42,559
Other	64,954	-	-	64,954
Total operating expenses ***(Note 12)***	1,881,092	-	-	1,881,092
Change in net assets from operating activities	126,270	(1,509)	-	124,761
OTHER ACTIVITIES:				
Investment gains, net of endowment distributions for operations	268,595	176,001	1,974	446,570
Contributions for endowment	-	-	23,755	23,755
Change in fair value of interest rate swaps	(1,343)	-	-	(1,343)
Nonperiodic changes in benefit plans *(Note 10)*	(23,518)	-	-	(23,518)
Total other activities	243,734	176,001	25,729	445,464
CHANGE IN NET ASSETS	370,004	174,492	25,729	570,225
NET ASSETS, BEGINNING OF YEAR	2,506,552	674,134	622,428	3,803,114
NET ASSETS, END OF YEAR	$ 2,876,556	$ 848,626	$ 648,157	$ 4,373,339

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(in thousands of dollars)

	2015	2014
CASH AND EQUIVALENTS:		
End of year	$ 49,582	$ 60,831
Beginning of year	60,831	196,807
CHANGE IN CASH AND CASH EQUIVALENTS	$ (11,249)	$ (135,976)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 27,101	$ 570,225
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	168,539	159,266
Net bond premium amortization	(4,802)	(5,460)
Loss on disposal of plant assets	1,926	2,316
Investment gains	(3,546)	(506,852)
Change in fair value of interest rate swaps	7,315	1,343
Contributions restricted for long-term investment	(71,539)	(66,590)
Changes in operating assets and liabilities:		
Accounts, notes, contributions, and loans receivable, net	9,222	(1,217)
Other assets	(1,288)	3,442
Accounts payable and accrued expenses	7,544	(1,421)
Pension and postretirement obligations	35,309	37,200
Conditional asset remediation obligation	290	358
Other liabilities	2,937	(1,710)
Government student loans and deferred revenue	(191)	(8,599)
Net cash provided by operating activities	178,817	182,301
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expended for property, plant, and equipment - University	(123,366)	(128,050)
Expended for property, plant, and equipment - commonwealth	(37,513)	(40,392)
Change in accounts payable for property, plant, and equipment	(10,371)	(985)
Purchases/sales of operating investments, net	(33,204)	(131,355)
Purchases of endowment investments	(1,604,549)	(1,061,112)
Proceeds from sales/maturities of endowment investments	1,515,111	1,045,331
Change in endowed funds held by third parties, excluding gains	(878)	(540)
Change in foundation assets	(413)	(3,280)
Net cash used for investing activities	(295,183)	(320,383)
CASH FLOW FROM FINANCING ACTIVITIES:		
Principal repayment of debt	(155,000)	(150,400)
Proceeds from issuance of debt	198,290	(4,487)
Change in deposits of bond and note proceeds	(19,291)	90,403
Contributions restricted for long-term investment	81,118	66,590
Net cash provided by financing activities	105,117	2,106
CHANGE IN CASH AND CASH EQUIVALENTS	$ (11,249)	$ (135,976)
Supplemental disclosure of cash flow information:		
Cash paid for interest (excluding fees)	$ 48,052	$ 50,279
Noncash investing activity for property, plant, and equipment-accounts payable	$ 23,430	$ 33,801

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

The University's main campus in the City of Pittsburgh comprises 16 schools and several academic centers educating nearly 29,000 students in various undergraduate, graduate, and doctorate-professional programs. Four regional campuses with a total enrollment approximating 6,300 students are located throughout western Pennsylvania.

Relationship with the Commonwealth of Pennsylvania

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

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

As a state-related institution, the University receives an annual operating and capital appropriation from the commonwealth. The appropriation results from the commonwealth's annual budget process. There is no assurance that such appropriation will continue to be made, or will be made, at current levels or at levels requested by the University. The appropriation from the commonwealth was $147.4 million in 2015 and $147.8 million in 2014. In addition to the annual appropriation, the commonwealth also funds certain capital projects in support of the University's mission. Amounts funded by the commonwealth for capital projects were $37.5 million in 2015 and $40.4 million in 2014.

Basis of Presentation

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

The other activities section of the Consolidated Statements of Activities includes investment gains (losses), net of endowment distributions for operations; contributions for endowment; changes in fair value of interest rate swaps; and nonperiodic changes in pension and postretirement benefit plans. Endowment distributions for operations represent endowment income distributions not reinvested in the endowment (see Note 11).

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB).

In accordance with GAAP, the University's net assets have been classified as unrestricted, temporarily restricted, or permanently restricted based upon the existence or absence of donor-imposed restrictions. Unrestricted net assets are not subject to donor-imposed restrictions and are used for general operating purposes of the University. This class of net assets also includes certain contributions and endowment earnings whose donor-imposed restrictions have been met within the fiscal year. Temporarily restricted net assets are subject to certain time or purpose restrictions by the donor. Upon satisfaction of these restrictions, the net assets are transferred to unrestricted. Amounts released from restrictions in 2015 and 2014 relate primarily to cash collections on pledges where purpose restrictions had already been met. Temporarily restricted net assets at June 30, 2015 and 2014 consist of endowment balances ($781.0 million and $824.7 million, respectively); the net present value of temporarily restricted contributions and unconditional pledges ($18.1 million and $19.0 million, respectively); and split-interest agreements ($5.3 million and $4.9 million, respectively). Permanently restricted net assets are those subject to permanent donor-imposed restrictions and at June 30, 2015 and 2014 consist of endowment balances ($654.0 million and $620.5 million, respectively); the net present value of permanently restricted contributions and unconditional pledges ($17.1 million and $15.3 million, respectively); and private student loan funds ($13.1 million and $12.4 million, respectively).

Donor-restricted endowed contributions require that the original corpus of the contributions be maintained in perpetuity. The distributions from earnings generated by these contributions may be either expended or reinvested in the endowment, in accordance with donor restrictions and endowment contribution and spending policies (see Note 11).

Estimates

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

Revenue Recognition

Revenue for programs or activities to be conducted in future periods such as student tuition and room and board are classified as deferred revenue. Revenue for these activities is recognized as services are provided. Advanced receipt of exchange transactions such as grants and contracts are also classified as deferred revenue, with revenue being recognized as funds are expended and sponsored programs are executed.

Tuition discounts are recorded to the extent that either institutional financial aid or aid funded by contributions, endowment distributions, and grant activities are awarded. Tuition discounts attributable to institutional funds in 2015 and 2014 were $147.3 million and $138.8 million, respectively. Tuition discounts attributable to contributions, endowment distributions, and grant activities were $23.8 million in both 2015 and 2014.

Cash and Cash Equivalents and Operating Investments

Cash equivalents consist of operating investments with original maturities of 90 days or less. Operating investments include Treasury instruments and other high quality, liquid securities that at the time of purchase are rated A3/P-1 or better by Moody's Investors Service or A-/A-1 or better by Standard & Poor's Ratings Services. Operating investments, together with cash, are utilized to fund the University's short-term operating needs and are invested with the expectation that such securities can be liquidated at their current value within a 7-day period. Cash and cash equivalents that are part of endowment investments are shown therewith, as such funds are utilized for endowment purposes rather than University operating needs.

Allowance for Doubtful Accounts

The University maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known troubled accounts, historical experience, and other currently available evidence. Receivables are written off when management determines they will not be collected.

Contributions

The University records at fair value unconditional pledges (which are agreements with donors involving non-reciprocal transfers of cash or other assets) as either temporarily restricted or permanently restricted contributions dependent upon the nature of the donor-imposed restrictions. Contributions whose restrictions are met in the same fiscal year as receipt are combined and reported with unrestricted contributions. Contributions receivable (classified as Level 3 in the fair value hierarchy) are discounted at a risk-adjusted rate commensurate with the donor's payment plan.

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

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

Deposits of Bond Proceeds

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

Foundation Assets

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

Endowment Investments

The University's endowment investments are reported at fair value. The fair value of direct University holdings in publicly traded securities is based upon quoted market prices. The fair value of all other investments, which consist of indirect holdings in both privately and publicly traded assets, is determined using net asset value (NAV) per share or unit of interest. Used as a practical expedient for the estimated fair value, NAV per share or its equivalent is provided by the fund manager and reviewed by the University. Indirect holdings of private assets primarily consist of University interests in funds investing in nonmarketable alternatives, real assets, and/or distressed securities, whereas indirect holdings of publicly traded assets primarily consist of University interests in marketable alternatives or other commingled funds.

Nonmarketable alternatives are private equity or equity-like holdings, such as mezzanine and subordinated debt interests, in venture, buyout, or recapitalized companies or properties. Real assets are physical assets, or financial assets associated with such physical assets, whose income streams and/or fair values tend to rise with inflation; they include real estate, natural resources, commodities, and other hard assets. Marketable alternatives consist of distressed debt and hedging strategies, including event-driven hedging strategies, such as merger or credit arbitrage, and value-driven hedging strategies, such as long/short, market neutral, and other hedging strategies.

Due to the nature of the investments held by the funds, changes in market conditions, economic environment, regulatory environment, currency exchange rates, interest rates, and commodity price fluctuations may significantly impact the NAV of the funds and, consequently, the fair value of the University's interest in the 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 at least reasonably 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.

Fair Value Measurements

As of June 30, 2015 and 2014, the carrying values of the University's inventories and deferred charges, accounts and notes receivable, contributions receivable, accounts payable, accrued expenses, and deferred student and other revenue approximate their fair values because of the terms and relatively short maturity. An estimate of the fair value of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the United States government or its designees.

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

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

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

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

Split-Interest Agreements
These agreements with donors consist primarily of charitable gift annuities, pooled income funds, and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Other liabilities include $10.4 million and $9.5 million at June 30, 2015 and 2014, respectively, for split-interest agreements.

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

Insurance Liabilities
The University is self-insured through an agreement with UPMC to provide medical coverage for its employees. A liability for estimated incurred but unreported claims of $6.7 million and $6.2 million has been recorded at June 30, 2015 and 2014, respectively, based upon management’s analysis of claims history. This liability is reflected in accrued payroll and related liabilities on the Consolidated Balance Sheets.

The University is also self-insured for certain other activities, including workers’ compensation, unemployment compensation, and litigation claims. Liabilities have been established for these programs generally based on third-party administrators’ estimates using the University’s historical loss experience. The self-insurance accrual is subject to periodic adjustment by the University based on actual loss experience factors. Liabilities for these other self-insured obligations aggregated $8.6 million and $9.3 million at June 30, 2015 and 2014, respectively, and are included in accrued payroll and related liabilities on the Consolidated Balance Sheets.

Grants and Contracts
The University conducts sponsored program activity with various sponsors, including agencies and departments of the federal government, the commonwealth, local government entities, companies, and foundations. Sponsored activity in 2015 and 2014 was $713.9 million and $697.6 million, respectively, with approximately 59% of the funding awarded through the National Institutes of Health. Most University sponsored activity is conducted on a cost reimbursable basis with the University receiving funding after the related expenses have been incurred.

Certain sponsors, however, provide funding in advance of related expenses, and such funding is recorded as advanced receipt of grant funds on the Consolidated Balance Sheets. Revenue from sponsored awards is recognized as the related expenses are incurred. There is no assurance that sponsored awards will continue to be made at current levels.

The University incurs both direct and indirect costs in the conduct of its sponsored activity. Recovery of indirect costs through federal awards is based upon predetermined rates negotiated with the Department of Health and Human Services. Indirect cost recovery rates from nonfederal sources may vary. Funds received through federal sources are subject to audit each year in accordance with the Office of Management and Budget Circular A-133.

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

Tax-Exempt Status
The University is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The University annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements. No provision for income taxes was required for 2015 or 2014.

Recent Accounting Pronouncements
In May 2015, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a Consensus of the FASB Emerging Issues Task Force)*, which eliminates the requirement to classify investments in the fair value hierarchy if their fair value is measured at net asset value or its equivalent (NAV), using the practical expedient. The University adopted this ASU in 2015 and modified the fair value disclosures in Note 5 as of June 30, 2014 to conform.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The University adopted ASU No. 2015-03 in 2015 and modified the June 30, 2014 presentation to conform.

NOTE 2: ACCOUNTS AND NOTES RECEIVABLE, NET

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

	2015	2014
	(in thousands of dollars)	
Sponsored grant receivables, net	$ 86,250	$ 86,106
Hospitals and affiliated organizations receivables, net	18,405	21,296
Plant construction receivables due from commonwealth	15,433	25,012
Student receivables, net	10,447	10,302
Interest income receivables	1,512	1,447
Other receivables, net	11,451	16,712
Total accounts and notes receivable, net	$ 143,498	$ 160,875

NOTE 3: CONTRIBUTIONS RECEIVABLE, NET

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

	2015	2014
	(in thousands of dollars)	
Amounts due in:		
Less than one year	$ 16,992	$ 15,700
One to five years	17,754	19,130
Greater than five years	2,248	1,871
Gross contributions receivable	36,994	36,701
Less:		
Allowance for uncollectible pledges	(1,414)	(1,378)
Unamortized discounts	(1,035)	(987)
Total contributions receivable, net	$ 34,545	$ 34,336

At June 30, 2015 and 2014, the five largest outstanding pledge balances represented 39% and 37%, respectively, of the University's net contributions receivable.

The University has been named a beneficiary in the wills of numerous donors or has received conditional pledges totaling $199.6 million and $185.2 million at June 30, 2015 and 2014, respectively. These bequests and conditional pledges are not included in the consolidated financial statements.

NOTE 4: ENDOWMENT AND OPERATING INVESTMENTS

Investments at June 30 consist of the following:

	2015	2014
	(in thousands of dollars)	
Endowment investments:		
Pooled	$ 3,577,793	$ 3,481,731
Nonpooled	32,602	32,452
Subtotal endowment investments	3,610,395	3,514,183
Operating investments *(Note 1)*	569,806	539,378
Total endowment and operating investments	$ 4,180,201	$ 4,053,561
Composition of endowment investments:		
Cash and cash equivalents	$ 98,908	$ 89,687
Domestic equities	527,552	509,214
International equities	742,036	704,212
U.S. government and government agencies' securities, bank acceptances and certificates, and commercial paper	170,082	173,910
Corporate bonds and other obligations	179,019	172,138
Alternative investment funds and partnerships:		
Marketable alternatives	740,625	679,077
Nonmarketable alternatives	622,515	644,737
Real assets	529,658	541,208
Total endowment investments	$ 3,610,395	$ 3,514,183
Composition of operating investments:		
U.S. government and government agencies' securities, repurchase agreements, and commercial paper	$ 358,130	$ 337,224
Corporate bonds and other obligations	192,367	183,600
Other	19,309	18,554
Total operating investments	$ 569,806	$ 539,378

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

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

The University's investment policy contemplates the effects of its spending policy. The endowment spending policy balances the need for reliable and predictable earnings distributions to support current University activities with the desire to maintain the purchasing power of endowment assets so that they can continue providing financial support for future generations (see Note 11).

The following table summarizes the University's investments at June 30, 2015 and 2014 for which NAV was used as a practical expedient to estimate fair value:

Asset Class	Fair Value Determined Using NAV 2015	Fair Value Determined Using NAV 2014	Unfunded Commitments at June 30, 2015	Redemption Frequency	Redemption Notice Period
	(in thousands of dollars)				
International equities	$ 126,968	$ 138,623	$ -	Quarterly	60-120 days
Marketable alternatives:					
Redeemable within one year	523,206	531,269	-	90-365 days	30-180 days
Redeemable beyond one year	176,352	83,662	-	1-3 years	30-60 days
Nonredeemable	41,067	64,146	2,079	NA	NA
Total marketable alternatives	740,625	679,077	2,079		
Nonmarketable alternatives	622,515	644,737	357,592	NA	NA
Real assets:					
Redeemable	88,882	92,559	-	Monthly	10 days
Nonredeemable	440,776	448,649	270,539	NA	NA
Total real assets	529,658	541,208	270,539		
Total	$ 2,019,766	$ 2,003,645	$ 630,210		

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

International Equities
A portion of the University's investments in emerging markets equities are interests in one or more comingled funds that hold publicly traded emerging market equities.

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

Real Assets
The University's investments in real assets are interests in commingled funds that hold various combinations of publicly and 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 relatively illiquid in that they are not easily transferable and typically achieve liquidity over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund assets.

NOTE 5: FAIR VALUE MEASUREMENTS

The following tables summarize the inputs used in valuing the University's assets and liabilities carried at fair value, excluding investments stated at NAV as a practical expedient, at June 30, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Assets	*(in thousands of dollars)*			
Cash and cash equivalents	$ 47,339	$ 2,243	$ -	$ 49,582
Endowment investments:				
Cash and cash equivalents	73,686	25,222	-	98,908
Domestic equities	519,442	8,110	-	527,552
International equities	602,220	-	12,848	615,068
U.S. government, corporate bonds, and other obligations	262,257	83,064	3,780	349,101
Subtotal endowment investments[(1)]	1,457,605	116,396	16,628	1,590,629
Operating investments:				
U.S. government, corporate bonds, and other obligations	442,095	108,402	-	550,497
Other	1,123	-	18,186	19,309
Deposits of bond proceeds	18,344	947	-	19,291
Endowed funds held by third parties	-	-	23,140	23,140
Total assets	$ 1,966,506	$ 227,988	$ 57,954	$ 2,252,448
Liabilities				
Interest rate swaps	$ -	$ 76,619	$ -	$ 76,619

	2014			
	Level 1	Level 2	Level 3	Total
Assets	*(in thousands of dollars)*			
Cash and cash equivalents	$ 51,594	$ 9,237	$ -	$ 60,831
Endowment investments:				
Cash and cash equivalents	51,778	37,909	-	89,687
Domestic equities	496,835	12,379	-	509,214
International equities	546,940	6,387	12,262	565,589
U.S. government, corporate bonds, and other obligations	269,045	73,076	3,927	346,048
Subtotal endowment investments[(1)]	1,364,598	129,751	16,189	1,510,538
Operating investments:				
U.S. government, corporate bonds, and other obligations	412,022	108,802	-	520,824
Other	982	-	17,572	18,554
Endowed funds held by third parties	-	-	22,714	22,714
Total assets	$ 1,829,196	$ 247,790	$ 56,475	$ 2,133,461
Liabilities				
Interest rate swaps	$ -	$ 69,304	$ -	$ 69,304

[(1)] The subtotal of endowment investments within the fair value tables above exclude investments of $2,019,766 and $2,003,645 as of June 30, 2015 and 2014, respectively, which are measured at NAV and are not classified in the fair value hierarchy (see Note 4).

The following table summarizes the change in the Level 3 activity for the years ended June 30, 2015 and 2014:

	International Equities	U.S. Government Corporate and Other	Other and Endowed Funds Held by Third Parties	Total
	(in thousands of dollars)			
Balance - June 30, 2013	$ 7,390	$ 4,222	$ 36,738	$ 48,350
Capital calls/purchases	7,049	-	1,171	8,220
Distributions/sales	(3,710)	(295)	(1,196)	(5,201)
Realized gains	239	-	-	239
Unrealized gains	1,294	-	3,573	4,867
Balance - June 30, 2014	12,262	3,927	40,286	56,475
Capital calls/purchases	3,946	-	1,348	5,294
Distributions/sales	(7,247)	(147)	(1,439)	(8,833)
Realized gains	1,312	-	-	1,312
Unrealized gains	2,575	-	1,131	3,706
Balance - June 30, 2015	$ 12,848	$ 3,780	$ 41,326	$ 57,954

Realized and unrealized gains for Level 3 activity are reported in other activities in the Consolidated Statements of Activities. The unrealized gains related to investments held at June 30, 2015 and 2014 were $3.4 million and $2.1 million, respectively.

There were no transfers of investments between levels in 2015 or 2014.

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT, NET

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

	2015	2014
	(in thousands of dollars)	
Land	$ 51,321	$ 51,321
Buildings and improvements	2,919,391	2,807,784
Equipment	714,636	691,532
Library books	267,415	256,908
Works of art, historical treasures, and similar assets	18,316	17,448
Construction in progress	135,127	147,518
Subtotal	4,106,206	3,972,511
Less: Accumulated depreciation	(2,320,457)	(2,177,176)
Total property, plant, and equipment, net	$ 1,785,749	$ 1,795,335

The amount capitalized in property, plant, and equipment related to expenditures funded by the commonwealth on behalf of the University totaled $657.6 million and $603.1 million at June 30, 2015 and 2014, respectively. The net book value of these items was $311.0 million and $279.3 million at June 30, 2015 and 2014, respectively.

NOTE 7: CONDITIONAL ASSET REMEDIATION OBLIGATION

The University has recognized liabilities for conditional asset retirement obligations. The University performed an analysis of such obligations and determined that asbestos remediation costs represented the primary source of such liabilities. The University reviewed facilities on all campuses and estimated the timing, method, and cost of remediation. The analysis included an estimated inflation factor and discount rate, which were used to determine the present value of the obligation.

The following table details the change in the liabilities for the year ended June 30:

	2015	2014
	(in thousands of dollars)	
Balance - beginning of year	$ 40,929	$ 40,571
Accretion and other adjustments	1,148	1,122
Liabilities settled	(858)	(764)
Balance - end of year	$ 41,219	$ 40,929

NOTE 8: BONDS AND NOTES PAYABLE

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

	Range of Years Remaining to Maturity	2015 Effective Interest Rates	Outstanding Principal *(in thousands of dollars)* 2015	2014
Variable-rate bonds:				
Series 2014-B1/B2 Bonds	10-20	0.05%-0.11%	$ 46,000	$ -
Series 2007-B Bonds	25-26	0.06%-0.11%	44,621	44,621
Series 2005-A Bonds	22-24	0.06%-0.10%	40,000	40,000
Series 2005-B Bonds	16-23	0.05%-0.09%	45,000	45,000
Series 2005-C Bonds	17-20	0.05%-0.09%	30,000	30,000
Series 2002-B Bonds	16-21	0.07%-0.09%	15,000	15,000
Total variable-rate bonds			220,621	174,621
Fixed-rate bonds and notes:				
Series 2014-A Bonds	21-29	3.51%-3.65%	49,000	-
Series 2009-A/B Bonds	3 mos.-16	3.40%-5.10%	338,140	373,140
Series 2007-B Bonds	8-13	4.28%-4.69%	60,000	60,000
Series 2005-A Bonds	13-15	4.69%-4.83%	35,000	35,000
Series 2002-A Bonds	3 mos.-8	2.68%-4.31%	30,000	30,000
Series 2002-B Bonds	11-12	4.53%-4.74%	14,500	14,500
Series 2000-A/B/C Bonds	9-20	4.37%-5.07%	124,400	124,400
Series 2014 PANTHER Notes, due July 22, 2015		0.12%	100,000	-
Series 2013 PANTHER Notes, due July 11, 2014		0.18%	-	120,000
Noninterest-bearing promissory note			171	171
Total fixed-rate bonds and notes			751,211	757,211
Unamortized net premium			14,542	15,799
Debt issuance costs			(4,742)	(4,487)
Total bonds and notes payable			$ 981,632	$ 943,144

Fair value estimates of the bonds and notes payable are based upon observable interest rates and maturity schedules, signifying Level 2 liabilities in the fair value hierarchy ($1,093.2 million in 2015 and $1,044.4 million in 2014).

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

2016	$ 130.5
2017	$ 27.4
2018	$ 26.4
2019	$ 35.0
2020	$ 35.0

The foregoing principal payments do not include $220.6 million of variable-rate demand bonds (VRDBs) in commercial paper (CP) mode, all of which have final maturity dates between 2031 and 2041. These bonds bear short-term rates that are fixed over staggered periods of approximately 90 days each and are remarketed at the expiry of each rate period.

Liquidity support for the $220.6 million of outstanding VRDBs in CP mode is provided by the University. In the event the University receives notice of an optional tender on its VRDBs in CP mode, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the tendered bonds. To provide a secondary source of liquidity for this type of event, the University entered into a $100.0 million unsecured standby liquidity agreement with a financial institution that matures in June 2016. Since the October 2009 effective date of the liquidity agreement, no draws have occurred.

On September 18, 2014, the University issued $95.0 million in University Capital Project Bonds (2014 Bonds). The 2014 Bonds consist of $49.0 million of Series A Bonds (fixed-rate bonds) and $46.0 million of Series B Bonds (variable-rate bonds issued in CP mode). The 2014 Bonds have a final maturity date of 2044 with a weighted average life of 21.3 years.

The 2014 Pitt Asset Notes - Tax Exempt Higher Education Series (PANTHERS of 2014) were issued in July 2014 in the amount of $100.0 million and were repaid on July 22, 2015.

In July 2015, the University issued its PANTHERS of 2015 in the amount of $100.0 million. Of this amount, $73.0 million was used to partially refund the $100.0 million of PANTHERS of 2014 that matured on July 22, 2015, and $27.0 million was used for equipment expenditures. The PANTHERS of 2015 mature on August 2, 2016.

The University had three general unsecured credit facilities, aggregating $75.0 million, at June 30, 2015. No draws were made under the facilities during 2015 or 2014. Although each of the three credit facilities carry an expiry date of October 27, 2015, it is management’s intention to extend each facility for another 364-day term.

Interest costs incurred in 2015 and 2014 were $43.1 million and $42.6 million, respectively. Included in these amounts are net swap payments and capitalized interest associated with various construction projects. Capitalized interest for 2015 and 2014 was $1.4 million and $2.6 million, respectively.

NOTE 9: DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

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

The University may be exposed to financial loss should a derivative counterparty fail to perform pursuant to the instrument. In the case of exchange-traded derivatives, the counterparty is the exchange itself. In the case of over-the-counter derivatives, the counterparty is typically a financial institution. Counterparty risks are mitigated by using creditworthy counterparties, settling positions periodically, and requiring collateral to be posted at predetermined levels of exposure.

Not including University derivative instruments held by various alternative investment funds, University financial assets invested in derivative instruments had a fair value, based upon Level 1 of the fair value hierarchy, of $32.3 million and $45.2 million at June 30, 2015 and 2014, respectively, which are included in endowment investments on the Consolidated Balance Sheets.

The University liabilities arising from variable-to-fixed interest rate swap agreements associated with certain University debt obligations had an aggregated fair value of $76.6 million and $69.3 million at June 30, 2015 and 2014, respectively, and are included in other liabilities on the Consolidated Balance Sheets (see Note 5). The fair value represents the estimated amount the University would be required to pay to terminate these agreements as of the respective fiscal year-end. The University recorded in the Consolidated Statements of Activities unrealized losses of $7.3 million in 2015 and $1.3 million in 2014 due to changes in fair value of the swaps.

The aggregate notional amount of the swap agreements associated with University debt was $380.3 million and $395.3 million at June 30, 2015 and 2014, 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 2015 or 2014 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.

Pension

The University provides retirement benefits under contributory or noncontributory plans to substantially all employees. The University's contributory plan provides for participation in the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) and in investment funds of the Vanguard Group. The plan is fully funded and requires three years of service for vesting of the University contribution. Employees hired before January 1, 1995 were immediately vested. University contributions to this plan in 2015 and 2014 were $74.7 million and $73.1 million, respectively.

The noncontributory plan is a defined-benefit pension plan that covers employees who do not participate in the contributory plan. The plan provides for vesting after five years with pension benefits accruing at 2.1% of base salary or the Social Security wage base, whichever is lower. Pension benefits are payable upon normal retirement at age 65 or early retirement at age 55, in accordance with the conditions and pension eligibility criteria described in the plan. University contributions to this plan in 2015 and 2014 were $9.8 million and $4.4 million, respectively.

Postretirement

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

Though funding is not required, the University has elected to fund its postretirement liability via a quasi-endowment fund, which is managed together with the University's pooled endowment investments (see Notes 4 and 11). The fair value of these investments at June 30, 2015 and 2014 was $353.5 million and $341.3 million, respectively, and is included in endowment investments on the Consolidated Balance Sheets. Although the University has established this quasi-endowment for the postretirement plan, payments to beneficiaries of this plan are currently made through nonendowed operating funds.

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

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

The University uses a measurement date of June 30 for plan assets and the benefit obligations. Information related to the benefit obligation, assets, and funded status of the defined-benefit pension plan and the postretirement benefit plan as of and for the years ended June 30, 2015 and 2014 is summarized in the table below:

	Defined-Benefit Plan		Postretirement Plan	
	2015	2014	2015	2014
	(in thousands of dollars)			
Net periodic benefit cost:				
Service cost	$ 5,660	$ 4,775	$ 15,686	$ 13,871
Interest cost	4,737	4,289	18,572	18,969
Expected return on plan assets	(6,232)	(5,058)	-	-
Actuarial loss	643	477	2,330	1,594
Amortization of prior service credit	(52)	(52)	(3,964)	(3,964)
Net periodic benefit cost	$ 4,756	$ 4,431	$ 32,624	$ 30,470
Funded status:				
Benefit obligation at beginning of year	$ 106,204	$ 86,569	$ 421,842	$ 388,476
Service cost	5,660	4,775	15,686	13,871
Interest cost	4,737	4,289	18,572	18,969
Actuarial loss	2,186	11,347	16,510	17,314
Benefits paid	(965)	(776)	(16,855)	(16,788)
Benefit obligation at end of year	$ 117,822	$ 106,204	$ 455,755	$ 421,842
Fair value of plan assets at beginning of year	$ 84,021	$ 68,220		
Actual return on plan assets	1,432	12,146		
Actual plan contributions	9,755	4,431		
Benefits paid	(965)	(776)		
Fair value of plan assets at end of year	$ 94,243	$ 84,021		
Funded status – liability recognized on Consolidated Balance Sheets:				
Pension and postretirement obligations	$ (23,579)	$ (22,183)	$ (455,755)	$ (421,842)
Accumulated benefit obligation	$ 112,680	$ 101,661		

Estimated 2016 employer contribution to the defined-benefit plan: *(in thousands of dollars)*	$ 5,931

In October 2014, the Society of Actuaries released new data regarding observed mortality rate improvements since 2000 (the RP-2014 Mortality Tables and the MP-2014 Mortality Improvement Scale). The updated mortality tables were considered by the University and adopted as of June 30, 2015. Implementation of the new mortality tables increased the projected benefit obligation of the postretirement plan by $34.9 million and the defined-benefit pension plan by $10.0 million.

	Defined-Benefit Plan		Postretirement Plan	
	2015	2014	2015	2014
Weighted-average assumptions used to determine the benefit obligation (liability) at June 30:				
Discount rate	4.8%	4.5%	4.8%	4.5%
Rate of compensation increase	3.0%	3.0%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.0%	7.0%
Initial trend – post-age 65 retirees	-	-	6.0%	5.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2023	2020
Weighted-average assumptions used to determine the net periodic cost (expense) for the years ended June 30:				
Discount rate	4.5%	5.0%	4.5%	5.0%
Rate of compensation increase	3.0%	3.0%	-	-
Expected long-term return on plan assets	7.5%	7.5%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.0%	8.0%
Initial trend – post-age 65 retirees	-	-	5.0%	6.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2020	2021

Estimated future benefit payments:	Defined-Benefit Plan	Postretirement Plan
	(in thousands of dollars)	
2016	$ 2,081	$ 17,112
2017	$ 2,348	$ 20,002
2018	$ 2,654	$ 21,505
2019	$ 2,940	$ 23,397
2020	$ 3,306	$ 25,430
2021 - 2025	$ 23,068	$ 156,526

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

	Increase		Decrease	
	(in millions of dollars)			
	Revised Amount	Percent Change	Revised Amount	Percent Change
Service and interest cost (medical component only)	$ 33.6	6.7%	$ 27.3	13.2%
Total periodic benefit cost	$ 36.3	11.1%	$ 25.8	20.9%
Benefit obligation for health care benefits	$ 446.3	6.4%	$ 373.8	10.9%
Total benefit obligation	$ 482.6	5.9%	$ 410.2	10.0%

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, 2015 and 2014 was $94.2 million and $84.0 million, respectively. The fund is invested through common collective trust funds in domestic and international equities and fixed-income securities using the S&P 500 Index as a benchmark for domestic equities, the MSCI EAFE Index for international equities, and the Barclays Intermediate Government/Credit Bond Index for the fixed-income securities. The specific investment objective is to meet or exceed the investment policy benchmark over the long term. Plan investments are determined using NAV per share as a practical expedient for estimated fair value. The plan has no unfunded commitments.

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

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

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

	Target Allocation	2015	2014
Asset class		*(in thousands of dollars)*	
Equity securities:			
Stock index and small cap	35%	$ 32,800	$ 29,307
International	35%	33,326	28,234
Debt securities	30%	27,793	25,242
Cash and cash equivalents	-	324	1,238
Total pension plan assets		$ 94,243	$ 84,021

Pension plan investments are generally measured at fair value using the NAV per share as a practical expedient and are not classified in the fair value hierarchy. Cash and cash equivalents are Level 2 in the fair value hierarchy.

NOTE 11: ENDOWMENT NET ASSETS

The commonwealth has not adopted The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and, instead, enacted in December 1998 Pennsylvania Act 141 (codified as Title 15 of the Pennsylvania Consolidated Statutes §5548(c) and referred to herein as "Title 15") to govern the investment of restricted funds held in trust by Pennsylvania nonprofit corporations. Title 15 permits Pennsylvania nonprofit corporations to elect a total return approach for determining income distributions from restricted funds held in trust, whereby income is defined as a stipulated percentage of the value of the assets held; the stipulated percentage must be determined at least annually and may be no less than 2% nor more than 7%, and the value of the assets held must be averaged over a period of three or more preceding years. A resolution to elect a total return approach for determining endowment income distributions for the University's consolidated investment pool was passed by the University's Board of Trustees on October 21, 1999. The University's endowment income distribution is determined annually using a stipulated percentage of 4.25% of the endowment's three-year average fair value, provided that such distribution is not less than the amount distributed in the previous year. The endowment income distribution amounts for both 2015 and 2014 were approximately 4.25% of the endowment's three-year average fair value.

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

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(in thousands of dollars)			
Donor-restricted endowment funds	$ -	$ 780,998	$ 653,935	$ 1,434,933
Quasi-endowment funds	2,164,556	-	-	2,164,556
Total endowment net assets	$ 2,164,556	$ 780,998	$ 653,935	$ 3,599,489

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(in thousands of dollars)			
Donor-restricted endowment funds	$ -	$ 824,655	$ 620,510	$ 1,445,165
Quasi-endowment funds	2,056,794	-	-	2,056,794
Total endowment net assets	$ 2,056,794	$ 824,655	$ 620,510	$ 3,501,959

The change in endowment net assets for the years ended June 30, 2015 and 2014 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(in thousands of dollars)			
Endowment net assets – June 30, 2013	$ 1,735,312	$ 648,930	$ 597,494	$ 2,981,736
Endowment return:				
Endowment earnings	32,937	-	1,748	34,685
Gains	334,259	175,725	29	510,013
Total endowment return	367,196	175,725	1,777	544,698
Contributions	1,027	-	21,239	22,266
Distributions for operations	(96,629)	-	-	(96,629)
Net transfers	49,888	-	-	49,888
Endowment net assets – June 30, 2014	2,056,794	824,655	620,510	3,501,959
Endowment return:				
Endowment earnings	21,714	-	1,469	23,183
Gains (losses)	48,786	(43,657)	438	5,567
Total endowment return	70,500	(43,657)	1,907	28,750
Contributions	334	-	31,518	31,852
Distributions for operations	(101,886)	-	-	(101,886)
Net transfers	138,814	-	-	138,814
Endowment net assets – June 30, 2015	$ 2,164,556	$ 780,998	$ 653,935	$ 3,599,489

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 12: 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:

	2015	2014
	(in thousands of dollars)	
Instruction	$ 554,616	$ 524,781
Research	655,546	638,949
Public service	86,489	81,674
Academic support	191,288	183,817
Libraries	48,979	48,582
Student services	145,153	133,426
Institutional support	137,527	137,341
Auxiliary enterprises	141,107	132,522
Total functional expenses	$ 1,960,705	$ 1,881,092

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

NOTE 13: RELATED PARTIES

The University has relationships and affiliation agreements with separately incorporated entities including UPMC and affiliated hospitals and UPP. These relationships include a common paymaster arrangement for certain University School of Medicine (SOM) faculty with academic and clinical responsibilities; contractual obligations for UPMC and UPP to support certain educational and research functions at the University; and property rental agreements. Transactions with all related entities are conducted in the ordinary course of business and are discussed below.

Certain University SOM faculty and staff provide clinical services through their University appointments to UPMC, UPP, and affiliated hospitals. The University invoices these entities monthly for reimbursement of the clinical portion of the associated compensation costs. SOM faculty members having both a University academic appointment and a separate, external appointment for clinical responsibilities participate in the common paymaster arrangement for purposes of determining appropriate FICA taxation. In addition to the reimbursable compensation costs, the University also engages in other transactions with these entities, which include providing certain facilities-related services, telephone, mailing, printing, and various other services, which are reimbursed at cost. Reimbursements from UPMC, UPP, and affiliated hospitals for clinical compensation and other costs totaled $138.9 million and $141.0 million in 2015 and 2014, respectively.

In 1998, the University signed a 10-year agreement with UPMC that included financial commitments designed to further the two entities' commitment to their interrelated teaching, research, clinical care, and community service missions. As part of the agreement, UPMC provides $12.5 million annually in funding for the SOM. UPMC also provides additional funding up to $2.5 million annually on a matching basis. The match is on a one-to-two basis with UPMC matching $1 for every $2 provided by the University to support health sciences programs. The University has received this match each year since the inception of the agreement. This agreement was amended in 2007 under essentially the same terms, except for a provision to provide an additional $10.0 million per year in 2007, increased annually by $0.5 million from

2008 through 2016. The University received $29.0 million and $28.5 million (including the annual match) in 2015 and 2014, respectively. Effective July 1, 2014, the term of the agreement was extended through June 30, 2018. These amounts are reported as other revenue in the Consolidated Statements of Activities.

The UPMC agreement was further amended in 2009 to include additional financial support through the Children's Hospital of Pittsburgh of UPMC (CHP) to the University of at least $7.5 million annually related to an agreement detailing the transfer of certain pediatric research programs from CHP to the University. This transfer standardized procedures, eliminated duplication of services, improved efficiency, reduced costs, and enhanced recruitment efforts for pediatric programs. The University received $10.8 million and $10.0 million in 2015 and 2014, respectively, related to this additional support. These amounts are reported as sales and services, educational and other in the Consolidated Statements of Activities.

UPMC also provided $14.3 million and $13.8 million in 2015 and 2014, respectively, of contractual dean's tax, which represents support for the academic and research activities of the SOM. This activity is reported as sales and services, educational and other in the Consolidated Statements of Activities.

UPMC also provides additional academic support to the SOM. These funds are used to support new programs, recruit faculty, and for general support of the School's academic mission. The University received $60.3 million and $43.7 million in 2015 and 2014, respectively, related to this additional support. These amounts are reported as sales and services, educational and other in the Consolidated Statements of Activities.

Additionally, UPMC provided support to various departments within the SOM to augment their operating budgets. These payments were made to those departments which do not generate sufficient revenues to meet their research and academic costs. Payments made by UPMC for this purpose totaled $8.9 million and $9.0 million in 2015 and 2014, respectively, and are reported as sales and services, educational and other in the Consolidated Statements of Activities.

The University is involved in certain rental arrangements where the University acts as both lessor or lessee with UPMC and its affiliates. Rental revenue from UPMC and affiliates totaled $9.9 million and $9.6 million in 2015 and 2014, respectively. Rent expense paid to UPMC and affiliates totaled $21.0 million and $23.2 million in 2015 and 2014, respectively.

In July 2013, UPMC provided support of $2.6 million for building renovations in the Department of Neurosurgery at the SOM. This amount is reported as unrestricted contributions for operations in the Consolidated Statement of Activities.

In April 2013, the University entered into a five-year agreement with UPMC to provide full-time, armed police aid, support, and assistance for certain UPMC facilities. Payments made by UPMC for these services totaled $2.5 million and $2.0 million in 2015 and 2014, respectively, and are reported as other revenue in the Consolidated Statements of Activities.

UPMC serves as the provider of health insurance coverage to all eligible University employees who enroll in the plan. The University is self-insured for these costs and reimburses UPMC for actual claims cost. Health insurance expense including administrative fees totaled $107.5 million and $103.9 million in 2015 and 2014, respectively, and is reported as fringe benefits in the Consolidated Statements of Activities.

UPMC receives federal matching funds for costs incurred by academic medical centers for medical assistance services. The funds are remitted to the University to support the activities of the SOM, the Western Psychiatric Institute and Clinic (WPIC), the Center for Public Health Practice, and the clinic within the School of Dental Medicine. These remittances were $11.1 million and $11.5 million in 2015 and 2014, respectively, and are reported as commonwealth appropriation revenue in the Consolidated Statements of Activities.

In 2003, the University and UPMC created the Medical and Health Sciences Foundation (MHSF), a separate 501(c)(3) organization. The mission of MHSF is to create a unified fundraising organization for the University's schools of the health sciences and UPMC. The arrangement calls for the cost of MHSF to be split evenly between the University and UPMC. In 2015 and 2014, UPMC's share of total operating costs for MHSF totaled $4.4 million for both years, and is reported as other revenue in the Consolidated Statements of Activities. All contributions generated by MHSF are credited to the University or UPMC based upon donor intent.

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

A lease arrangement exists between the University and the commonwealth for WPIC. Since 1949, the University has managed WPIC under an agreement between the University and the commonwealth whereby the University rents for a consideration of $1 per year the land, building, equipment, and other items that are used by WPIC. The agreement provides for continuing terms of 10 years each; however, this agreement is cancelable by either party on one year's written notice. In 1992, the University subleased to UPMC the land, building, equipment, and other items subject to the current lease arrangement between the commonwealth and the University. This sublease arrangement continued to be in effect during 2015 and 2014. Included in property, plant, and equipment is $189.2 million and $196.4 million at June 30, 2015 and 2014, respectively, related to the land, buildings, and equipment used by WPIC. Accumulated depreciation related to these assets totaled $155.8 million and $160.8 million at June 30, 2015 and 2014, respectively.

The University also has an arrangement with UPMC whereby certain research-related costs incurred by UPMC (primarily staff compensation) in relation to WPIC and the University of Pittsburgh Cancer Institute (UPCI) research awards are charged to such awards via an electronic billing and reimbursed to UPMC each month. Payments totaled $24.7 million in 2015 and $27.3 million in 2014 and are recorded as expenses in the Consolidated Statements of Activities. All billings are recorded at cost.

UPMC provided support payments to UPCI for various subsidies, research initiatives, and general support. These payments totaled $15.2 million and $11.9 million in 2015 and 2014, respectively, and are primarily reported in other revenue in the Consolidated Statements of Activities.

NOTE 14: COMMITMENTS AND CONTINGENCIES

At June 30, 2015 and 2014, the University had outstanding contractual commitments of $51.5 million and $82.1 million, respectively, for property, plant, and equipment expenditures.

The University engages in various leasing activities as both a lessor and lessee. Rental revenue from operating leases was $18.2 million and $17.8 million in 2015 and 2014, respectively. Rental expense for operating leases was $45.1 million in 2015 and $45.4 million in 2014. Minimum future rental revenue and expense under operating leases that have initial or remaining noncancelable lease terms for the years ended June 30 are as follows:

	Rental Revenue	Rental Expense
	(in thousands of dollars)	
2016	$ 16,785	$ 41,442
2017	$ 7,969	$ 34,867
2018	$ 5,712	$ 33,062
2019	$ 3,037	$ 33,041
2020	$ 2,168	$ 24,820
Thereafter	$ 10,331	$ 102,432

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

The University receives significant support from UPMC to continue the two entities' commitment to their interrelated teaching, research, clinical care, and community service missions. There are various agreements between the University and UPMC that provide for this support (see Note 13), but there is no guarantee these agreements will be renewed in future periods.

The University receives significant financial assistance from the federal government including the sponsorship of federal research projects. Grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of indirect costs is recorded at predetermined rates negotiated with the federal government. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants and the University's indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management's opinion, the likelihood of a material adverse outcome upon the University's financial position from those reviews and audits is remote.

In 2014, the University received $35.6 million in a legal settlement regarding a patent infringement case. This amount is reported, net of $17.0 million in legal and other expenses, as other revenue in the Consolidated Statement of Activities.

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

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

NOTE 15: SUBSEQUENT EVENTS

The University has evaluated subsequent events through September 24, 2015, the date on which the consolidated financial statements were issued, and determined that there were no subsequent events requiring disclosure or adjustment to the consolidated financial statements.

MEMBERSHIP OF THE BOARD OF TRUSTEES FISCAL YEAR 2015

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.