

UNIVERSITY OF PITTSBURGH



FINANCIAL REPORT

FISCAL YEAR 2017



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, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Pittsburgh, Pennsylvania
September 22, 2017

CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSITY OF PITTSBURGH
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2017 AND 2016
(in thousands of dollars)

	2017	2016
ASSETS:		
Cash and cash equivalents (Notes 1 and 5)	\$ 22,494	\$ 6,400
Operating investments (Notes 4 and 5)	521,879	558,801
Inventories and deferred charges	20,924	20,984
Accounts and notes receivable, net (Note 2)	192,103	188,277
Contributions receivable, net (Note 3)	33,193	31,935
Student loans receivable, net	45,384	47,611
Deposits of bond proceeds (Notes 1 and 5)	-	6,598
Foundation assets (Note 1)	27,893	26,351
Endowment investments (Notes 4 and 5)	3,970,047	3,546,458
Endowed funds held by third parties (Note 5)	22,944	22,079
Property, plant, and equipment, net (Note 6)	1,783,096	1,774,065
TOTAL ASSETS	\$ 6,639,957	\$ 6,229,559
LIABILITIES:		
Accounts payable and accrued expenses	\$ 96,032	\$ 95,212
Accrued payroll and related liabilities	80,779	74,796
Deferred student and other revenue	53,238	50,801
Advanced receipt of grant funds	64,061	62,689
Refundable U.S. government student loans	34,338	33,897
Other liabilities (Notes 5 and 8)	112,330	148,811
Pension and postretirement obligations (Note 9)	554,086	589,385
Conditional asset remediation obligation (Note 6)	30,644	37,346
Bonds and notes payable (Note 7)	939,379	948,949
TOTAL LIABILITIES	1,964,887	2,041,886
NET ASSETS:		
Unrestricted (Notes 1 and 10)	3,105,495	2,764,269
Temporarily restricted (Notes 1 and 10)	829,574	714,738
Permanently restricted (Notes 1 and 10)	740,001	708,666
TOTAL NET ASSETS	4,675,070	4,187,673
TOTAL LIABILITIES AND NET ASSETS	\$ 6,639,957	\$ 6,229,559

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

CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
COMPARED TO SUMMARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2016
(in thousands of dollars)

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
OPERATING REVENUES:					
Tuition and fees	\$ 788,455	\$ -	\$ -	\$ 788,455	\$ 764,499
Tuition discounts	(187,897)	-	-	(187,897)	(176,412)
Net tuition and fees	600,558	-	-	600,558	588,087
Commonwealth appropriation	158,899	-	-	158,899	154,335
Commonwealth construction grants	24,645	-	-	24,645	21,289
Grants and contracts	764,478	-	-	764,478	726,531
Contributions for operations	32,462	12,361	-	44,823	54,011
Investment income – operating investments	6,808	-	-	6,808	6,080
Endowment distributions for operations	126,472	-	-	126,472	118,245
Sales and services, educational and other	193,600	-	-	193,600	186,864
Sales and services, auxiliary	152,767	-	-	152,767	150,533
Rental revenue	18,261	-	-	18,261	18,351
Other	78,351	-	-	78,351	82,463
Net assets released from restrictions	13,667	(13,667)	-	-	-
Total operating revenues	2,170,968	(1,306)	-	2,169,662	2,106,789
OPERATING EXPENSES:					
Salaries and wages	949,288	-	-	949,288	906,494
Fringe benefits	300,772	-	-	300,772	273,652
Total compensation	1,250,060	-	-	1,250,060	1,180,146
Supplies	115,802	-	-	115,802	106,618
Business and professional	347,621	-	-	347,621	332,685
Utilities	47,018	-	-	47,018	46,658
Maintenance and facilities	52,152	-	-	52,152	48,674
Depreciation	177,781	-	-	177,781	175,135
Interest	31,343	-	-	31,343	42,212
Other	62,222	-	-	62,222	70,265
Total operating expenses (Note 11)	2,083,999	-	-	2,083,999	2,002,393
Change in net assets from operating activities	86,969	(1,306)	-	85,663	104,396
OTHER ACTIVITIES:					
Investment gains (losses), net of endowment distributions for operations	212,108	116,142	2,329	330,579	(208,241)
Contributions for endowment	-	-	29,006	29,006	22,123
Change in fair value of interest rate swaps	33,826	-	-	33,826	(34,522)
Nonperiodic changes in benefit plans (Note 9)	54,787	-	-	54,787	(96,523)
Bond refunding (Note 7)	(46,464)	-	-	(46,464)	-
Total other activities	254,257	116,142	31,335	401,734	(317,163)
CHANGE IN NET ASSETS	341,226	114,836	31,335	487,397	(212,767)
NET ASSETS, BEGINNING OF YEAR	2,764,269	714,738	708,666	4,187,673	4,400,440
NET ASSETS, END OF YEAR	\$ 3,105,495	\$ 829,574	\$ 740,001	\$ 4,675,070	\$ 4,187,673

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, 2016
(in thousands of dollars)

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Tuition and fees	\$ 764,499	\$ -	\$ -	\$ 764,499
Tuition discounts	(176,412)	-	-	(176,412)
Net tuition and fees	588,087	-	-	588,087
Commonwealth appropriation	154,335	-	-	154,335
Commonwealth construction grants	21,289	-	-	21,289
Grants and contracts	726,531	-	-	726,531
Contributions for operations	35,158	18,853	-	54,011
Investment income – operating investments	6,080	-	-	6,080
Endowment distributions for operations	118,245	-	-	118,245
Sales and services, educational and other	186,864	-	-	186,864
Sales and services, auxiliary	150,533	-	-	150,533
Rental revenue	18,351	-	-	18,351
Other	82,463	-	-	82,463
Net assets released from restrictions	13,753	(13,753)	-	-
Total operating revenues	2,101,689	5,100	-	2,106,789
OPERATING EXPENSES:				
Salaries and wages	906,494	-	-	906,494
Fringe benefits	273,652	-	-	273,652
Total compensation	1,180,146	-	-	1,180,146
Supplies	106,618	-	-	106,618
Business and professional	332,685	-	-	332,685
Utilities	46,658	-	-	46,658
Maintenance and facilities	48,674	-	-	48,674
Depreciation	175,135	-	-	175,135
Interest	42,212	-	-	42,212
Other	70,265	-	-	70,265
Total operating expenses (Note 11)	2,002,393	-	-	2,002,393
Change in net assets from operating activities	99,296	5,100	-	104,396
OTHER ACTIVITIES:				
Investment (losses) gains, net of endowment distributions for operations	(115,864)	(94,750)	2,373	(208,241)
Contributions for endowment	-	-	22,123	22,123
Change in fair value of interest rate swaps	(34,522)	-	-	(34,522)
Nonperiodic changes in benefit plans (Note 9)	(96,523)	-	-	(96,523)
Bond refunding	-	-	-	-
Total other activities	(246,909)	(94,750)	24,496	(317,163)
CHANGE IN NET ASSETS	(147,613)	(89,650)	24,496	(212,767)
NET ASSETS, BEGINNING OF YEAR	2,911,882	804,388	684,170	4,400,440
NET ASSETS, END OF YEAR	\$ 2,764,269	\$ 714,738	\$ 708,666	\$ 4,187,673

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

CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSITY OF PITTSBURGH
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(in thousands of dollars)

	2017	2016
CASH AND CASH EQUIVALENTS:		
End of year	\$ 22,494	\$ 6,400
Beginning of year	6,400	49,582
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 16,094	\$ (43,182)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 487,397	\$ (212,767)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	177,781	175,135
Nonperiodic changes in benefit plans	(54,787)	96,523
Bond refunding	46,464	-
Write-off of issuance costs and net premiums on refunded bonds	(5,467)	-
Net bond premium amortization	(2,360)	(4,163)
Loss on disposal of plant assets	2,882	1,254
Investment (gains) losses	(437,093)	110,426
Change in fair value of interest rate swaps	(33,826)	34,522
Contributions restricted for long-term investment	(57,024)	(46,431)
Changes in operating assets and liabilities:		
Accounts, notes, contributions, and loans receivable, net	13,195	(56,695)
Other assets	60	(438)
Accounts payable and accrued expenses	(3,648)	(289)
Pension and postretirement obligations	19,488	13,528
Conditional asset remediation obligation	(6,702)	(3,873)
Other liabilities	3,328	507
Government student loans and deferred revenue	4,250	7,892
Net cash provided by operating activities	153,938	115,131
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expended for property, plant, and equipment - University	(165,049)	(143,416)
Expended for property, plant, and equipment - commonwealth	(24,645)	(21,289)
Change in accounts payable for property, plant, and equipment	4,468	(2,624)
Purchases/sales of operating investments, net	29,875	12,067
Purchases of endowment investments	(2,163,200)	(1,646,384)
Proceeds from sales/maturities of endowment investments	2,182,433	1,600,290
Change in endowed funds held by third parties, excluding gains	453	(396)
Change in foundation assets	(1,542)	68
Net cash used for investing activities	(137,207)	(201,684)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayment of debt including bond refundings	(846,161)	(130,500)
Proceeds from issuance of debt including bond refundings	847,881	101,980
Defeasance of debt	(49,927)	-
Change in deposits of bond proceeds	6,598	12,693
Contributions restricted for long-term investment	40,972	59,198
Net cash (used for) provided by financing activities	(637)	43,371
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 16,094	\$ (43,182)
Supplemental disclosure of cash flow information:		
Cash paid for interest (excluding fees)	\$ 43,071	\$ 46,194
Noncash investing activity for property, plant, and equipment - accounts payable	\$ 25,274	\$ 20,806

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING PRACTICES

Organization

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

The University's main campus in the City of Pittsburgh comprises 16 schools and several academic centers educating nearly 29,000 students in various undergraduate, graduate, and doctorate-professional programs. Four regional campuses with a total enrollment approximating 6,100 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 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, which as of the auditor's opinion date, has not been completed for 2018. 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 \$158.9 million in 2017 and \$154.3 million in 2016. 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 \$24.6 million in 2017 and \$21.3 million in 2016.

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; change in fair value of interest rate swaps; nonperiodic changes in pension and postretirement benefit plans; and certain bond refunding activities. Endowment distributions for operations represent those distributions not reinvested in the endowment (see Note 10).

Basis of Accounting

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

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

existence or absence of donor-imposed restrictions. Unrestricted net assets are not subject to donor-imposed restrictions and are used for general operating purposes of the University. This class of net assets also includes certain contributions and endowment distributions from 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 relate primarily to cash collections on pledges, where purpose restrictions had already been met. Temporarily restricted net assets at June 30, 2017 and 2016 consist of endowment balances (\$801.6 million and \$686.1 million, respectively); the net present value of temporarily restricted contributions and unconditional pledges (\$22.6 million and \$23.7 million, respectively); and split-interest agreements (\$5.4 million and \$4.9 million, respectively). Permanently restricted net assets are those subject to permanent donor-imposed restrictions and at June 30, 2017 and 2016 consist of endowment balances (\$713.5 million and \$684.9 million, respectively); the net present value of permanently restricted contributions and unconditional pledges (\$13.1 million and \$10.7 million, respectively); and private student loan funds (\$13.4 million and \$13.1 million, respectively). Net assets restricted for purpose are for programmatic purposes including scholarships, instruction, and research.

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

Estimates

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

Revenue Recognition

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

Advanced receipts of 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 2017 and 2016 were \$162.6 million and \$152.1 million, respectively. Tuition discounts attributable to contributions, endowment distributions, and grant activities were \$25.3 million and \$24.3 million in 2017 and 2016, respectively.

Cash and Cash Equivalents and Operating Investments

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

Allowance for Doubtful Accounts

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

Contributions

The University records at fair value unconditional pledges (which are agreements with donors involving non-reciprocal transfers of cash or other assets) as either temporarily restricted or permanently restricted contributions depending on the nature of the donor-imposed restrictions. Contributions whose restrictions are met in the same fiscal year in which they are received are combined and reported with unrestricted contributions. Contributions receivable 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 and exchange traded funds are based upon quoted or published market prices. The fair value of all other investments, which consist of indirect holdings in both privately and publicly traded assets, is determined using net asset value (NAV) per share or unit of interest. Used as a practical expedient for the estimated fair value, NAV per share or its equivalent is provided by the fund manager and reviewed by the University. Indirect holdings of private assets primarily consist of University interests in funds investing in nonmarketable alternatives, real assets, and/or distressed securities, whereas indirect holdings of publicly traded assets primarily consist of University interests in marketable alternatives or other commingled funds. Nonmarketable alternatives are private equity or equity-

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

In the case of indirect holdings, changes in market conditions, economic environment, regulatory environment, currency exchange rates, interest rates, and commodity prices may significantly impact the NAV of the funds holding the investments and, consequently, the fair value of the University's interest in such funds and could materially affect the amounts reported in the consolidated financial statements. Although a secondary market exists for these investments, it is not active, and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant. The University attempts to manage these risks through diversification, ongoing due diligence of fund managers, maintaining adequate liquidity, and continuously monitoring economic and market conditions.

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

Fair Value Measurements

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

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

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

Derivative Financial Instruments

The University records derivatives at fair value on the Consolidated Balance Sheets with changes in fair value reflected in the Consolidated Statements of Activities (see Note 8).

Split-Interest Agreements

These agreements with donors consist primarily of charitable gift annuities, pooled income funds, and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Other liabilities include \$12.3 million and \$11.5 million at June 30, 2017 and 2016, respectively, for split-interest agreements.

Property, Plant, and Equipment, Net

Property, plant, and equipment is recorded at cost, or if acquired by contribution, at fair value as of the date of the contribution. Depreciation is calculated using the straight-line method. Useful lives generally range from 15 to 40 years for buildings and improvements and 5 to 10 years for furnishings and equipment. As assets are retired, sold, or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and gains or losses are recognized in the Consolidated Statements of Activities. Costs associated with the construction of new facilities and renovation and expansion of existing facilities are capitalized within construction in progress until such projects are placed in service. The University capitalizes software and certain implementation costs and

generally depreciates such assets over 5 to 10 years. Works of art, historical treasures, and similar assets include a variety of paintings, sculptures, photographs, antiques, and furnishings, as well as scholarly papers and archives. These assets are used for public exhibition, the preservation of artifacts and antiques for future generations, and scholarly research. Due to their nature, these assets are not depreciated. Library books, which include hard copy publications, periodicals, and electronic publications with rights to archival content, are depreciated over a period of 7 years. Maintenance and repairs are expensed as incurred.

Insurance Liabilities

The University is self-insured through an agreement with UPMC to provide medical coverage for its employees. A liability for estimated incurred but unreported claims of \$8.6 million and \$6.3 million has been recorded at June 30, 2017 and 2016, 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 \$9.0 million and \$10.5 million at June 30, 2017 and 2016, 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 2017 and 2016 was \$764.5 million and \$726.5 million, respectively, with approximately 66% of the funding awarded through the National Institutes of Health. Most University sponsored activity is conducted on a cost reimbursable basis with the University receiving funding after the related expenses have been incurred.

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

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

Government Loan Funds

U.S. government 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 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 2017 or 2016.

Reclassifications

Certain 2016 operating expense line items include reclassifications related to the presentation of internal cost recovery to conform with the 2017 presentation.

Recent Accounting Pronouncements

In March 2017, FASB issued the Accounting Standards Update (ASU) No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires presentation of the service cost component of the net periodic benefit cost within the same line item or items as other compensation costs arising from services rendered by relevant employees during the period, and presentation of the other cost components of net periodic benefit cost separately and outside of the change in net assets from operating activities. The ASU is effective for the

University for fiscal year 2020, and early adoption is permitted. The University is currently evaluating the impact this ASU will have on the consolidated financial statements and related disclosures.

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (NFPs) (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The ASU is effective for the University for fiscal year 2019, and early adoption is permitted. The ASU reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; requires all NFPs to present expenses by their functional and natural classifications in one location in the financial statements; and requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date. The University is currently evaluating the impact this ASU will have on the consolidated financial statements and related disclosures.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU is effective for fiscal year 2020, and early adoption is permitted. The ASU will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. The University is currently evaluating the impact this ASU will have on the consolidated financial statements and related disclosures.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will replace the current revenue recognition requirements in GAAP. The core principle of this ASU is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In addition, the ASU requires disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Two transition methods are permitted: the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown; or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The ASU is effective for fiscal year 2019. The University is currently evaluating the impact this ASU will have on the consolidated financial statements and related disclosures.

NOTE 2: ACCOUNTS AND NOTES RECEIVABLE, NET

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

	2017	2016
	<i>(in thousands of dollars)</i>	
Sponsored grant receivables, net	\$ 109,813	\$ 105,398
Hospitals and affiliated organizations receivables, net	31,944	40,580
Plant construction receivables due from commonwealth	22,708	9,090
Other receivables, net	12,930	11,199
Student receivables, net	11,745	9,173
Interest income receivables	1,926	1,694
Commonwealth appropriation receivable	1,037	11,143
Total accounts and notes receivable, net	\$ 192,103	\$ 188,277

NOTE 3: CONTRIBUTIONS RECEIVABLE, NET

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

	2017	2016
	<i>(in thousands of dollars)</i>	
Amounts due in:		
Less than one year	\$ 14,856	\$ 15,599
One to five years	18,322	16,558
Greater than five years	2,350	2,153
Gross contributions receivable	35,528	34,310
Less:		
Allowance for uncollectible pledges	(846)	(1,654)
Unamortized discounts	(1,489)	(721)
Total contributions receivable, net	\$ 33,193	\$ 31,935

At June 30, 2017 and 2016, the five largest outstanding pledge balances represented 29% 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 \$239.5 million and \$207.9 million at June 30, 2017 and 2016, respectively. These bequests and conditional pledges have not been recognized in the consolidated financial statements.

NOTE 4: ENDOWMENT AND OPERATING INVESTMENTS

Investments at June 30 consist of the following:

	2017	2016
	<i>(in thousands of dollars)</i>	
Endowment investments:		
Pooled	\$ 3,934,117	\$ 3,513,665
Nonpooled	35,930	32,793
Subtotal endowment investments	3,970,047	3,546,458
Operating investments <i>(Note 1)</i>	521,879	558,801
Total endowment and operating investments	\$ 4,491,926	\$ 4,105,259
Composition of endowment investments:		
Cash and cash equivalents	\$ 99,132	\$ 65,204
Domestic equities	628,229	554,918
International equities	841,031	715,179
U.S. government and government agencies' securities, bank acceptances and certificates, and commercial paper	222,563	173,468
Corporate bonds and other obligations	121,745	143,856
Alternative investment funds, partnerships, and exchange traded funds:		
Marketable alternatives	739,118	679,765
Nonmarketable alternatives	681,045	624,905
Real assets	637,184	589,163
Total endowment investments	\$ 3,970,047	\$ 3,546,458
Composition of operating investments:		
U.S. government and government agencies' securities, repurchase agreements, and commercial paper	\$ 300,341	\$ 347,117
Corporate bonds and other obligations	201,126	192,190
Other	20,412	19,494
Total operating investments	\$ 521,879	\$ 558,801

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

The philosophies and policies employed in the management of the endowment are long-term by definition, as they are based on the expectation that the endowment will continue to provide financial support to

the University in perpetuity. Accordingly, the University's investment policy is intended to optimize long-term total return — income plus capital appreciation — relative to the level of risk taken.

The University's investment policy contemplates the effects of its spending policy. The endowment spending policy balances the need for reliable and predictable earnings distributions to support current University activities with the desire to maintain the purchasing power of endowment assets so that they can continue providing financial support for future generations (see Note 10).

The following table summarizes the University's investments at June 30, 2017 and 2016, for which NAV was used as a practical expedient to estimate fair value:

Asset Class	Fair Value		Unfunded	Redemption	Redemption
	Determined Using NAV		Commitments		
	2017	2016	at June 30, 2017	Frequency	Period
(in thousands of dollars)					
International equities	\$ 127,969	\$ 108,485	\$ -	Quarterly	60-120 days
Marketable alternatives:					
Redeemable within one year	585,896	483,100	-	90-365 days	30-180 days
Redeemable beyond one year	45,829	156,848	-	1-3 years	30-60 days
Nonredeemable	35,957	39,817	30,079	NA	NA
Total marketable alternatives	667,682	679,765	30,079		
Nonmarketable alternatives	681,045	624,905	403,483	NA	NA
Real assets:					
Redeemable	52,718	65,811	-	Monthly	10 days
Nonredeemable	570,938	523,352	313,274	NA	NA
Total real assets	623,656	589,163	313,274		
Total	\$ 2,100,352	\$ 2,002,318	\$ 746,836		

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

International Equities

A portion of the University's investments in emerging market equities includes an interest in one fund that holds publicly traded emerging market equities.

Marketable Alternatives

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

Nonmarketable Alternatives

The University's investments in nonmarketable alternatives are interests in commingled, private equity funds, including venture capital. These funds are invested

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

Real Assets

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

NOTE 5: FAIR VALUE MEASUREMENTS

The following tables summarize the inputs used in valuing the University's assets and liabilities carried at fair value, excluding investments stated at NAV as a practical expedient, at June 30, 2017 and 2016:

2017				
	Level 1	Level 2	Level 3	Total
	<i>(in thousands of dollars)</i>			
Assets				
Cash and cash equivalents	\$ 21,173	\$ 1,321	\$ -	\$ 22,494
Endowment investments:				
Cash and cash equivalents	57,510	41,622	-	99,132
Domestic equities	615,254	12,975	-	628,229
International equities	708,761	-	4,301	713,062
U.S. government, corporate bonds, and other obligations	278,319	56,641	9,348	344,308
Marketable alternatives	71,436	-	-	71,436
Real assets	13,528	-	-	13,528
Subtotal endowment investments ⁽¹⁾	1,744,808	111,238	13,649	1,869,695
Operating investments:				
U.S. government, corporate bonds, and other obligations	412,748	88,719	-	501,467
Other	1,699	-	18,713	20,412
Endowed funds held by third parties	-	-	22,944	22,944
Total assets	\$ 2,180,428	\$ 201,278	\$ 55,306	\$ 2,437,012
Liabilities				
Interest rate swaps	\$ -	\$ 77,315	\$ -	\$ 77,315
2016				
	Level 1	Level 2	Level 3	Total
	<i>(in thousands of dollars)</i>			
Assets				
Cash and cash equivalents	\$ 4,057	\$ 2,343	\$ -	\$ 6,400
Endowment investments:				
Cash and cash equivalents	35,539	29,665	-	65,204
Domestic equities	541,057	13,861	-	554,918
International equities	598,898	-	7,796	606,694
U.S. government, corporate bonds, and other obligations	257,724	55,820	3,780	317,324
Subtotal endowment investments ⁽¹⁾	1,433,218	99,346	11,576	1,544,140
Operating investments:				
U.S. government, corporate bonds, and other obligations	441,045	98,262	-	539,307
Other	1,397	-	18,097	19,494
Deposits of bond proceeds	5,806	792	-	6,598
Endowed funds held by third parties	-	-	22,079	22,079
Total assets	\$ 1,885,523	\$ 200,743	\$ 51,752	\$ 2,138,018
Liabilities				
Interest rate swaps	\$ -	\$ 111,141	\$ -	\$ 111,141

⁽¹⁾ The subtotals of endowment investments within the fair value tables above exclude investments of \$2,100,352 and \$2,002,318 as of June 30, 2017 and 2016, 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, 2017 and 2016:

	International Equities	U.S. Government Corporate and Other	Other and Endowed Funds Held by Third Parties	Total
	<i>(in thousands of dollars)</i>			
Fair Value - June 30, 2015	\$ 12,848	\$ 3,780	\$ 41,326	\$ 57,954
Capital calls/purchases	3,485	-	894	4,379
Distributions/sales	(6,499)	-	(495)	(6,994)
Realized gains	263	-	-	263
Unrealized losses	(2,301)	-	(1,549)	(3,850)
Fair Value - June 30, 2016	7,796	3,780	40,176	51,752
Capital calls/purchases	-	5,380	1,537	6,917
Distributions/sales	(3,018)	-	(638)	(3,656)
Transfers out	(1,275)	-	-	(1,275)
Realized gains	675	-	-	675
Unrealized gains	123	188	582	893
Fair Value - June 30, 2017	\$ 4,301	\$ 9,348	\$ 41,657	\$ 55,306

Realized and unrealized gains (losses) for Level 3 activity are reported in other activities in the Consolidated Statements of Activities. Unrealized gains related to

investments held at June 30, 2017 were \$0.03 million. Unrealized losses related to investments held at June 30, 2016 were \$2.8 million.

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT, NET

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

	2017	2016
	<i>(in thousands of dollars)</i>	
Land	\$ 63,533	\$ 61,546
Buildings and improvements	3,150,047	3,048,432
Equipment	746,030	750,761
Library books	287,073	276,837
Works of art, historical treasures, and similar assets	20,949	20,838
Construction in progress	120,102	93,484
Subtotal	4,387,734	4,251,898
Less: Accumulated depreciation	(2,604,638)	(2,477,833)
Total property, plant, and equipment, net	\$ 1,783,096	\$ 1,774,065

The amount capitalized in property, plant, and equipment related to expenditures funded by the commonwealth on behalf of the University totaled \$729.5 million and \$707.3 million at June 30, 2017 and 2016, respectively. The net book value of these items was \$331.5 million and \$335.5 million at June 30, 2017 and 2016, respectively.

The University has recognized a liability for conditional asset retirement obligations. The University performed an

analysis of such obligations and determined that asbestos remediation costs represented the primary source of the liability. The University reviewed facilities on all campuses and estimated the timing, method, and cost of remediation. The resulting liability for conditional asset retirement obligations recognized at June 30, 2017 and 2016 was \$30.6 million and \$37.3 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: BONDS AND NOTES PAYABLE

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

	Range of Years		Outstanding Principal	
	Remaining	2017 Effective	(in thousands of dollars)	
	to Maturity	Interest Rates	2017	2016
Variable-rate bonds:				
Series 2017-C1, taxable	14-22	1.00%-1.12%	\$ 55,000	\$ -
Series 2017-C2, taxable	22-24	1.00%-1.12%	55,000	-
Series 2017-C3, taxable	15-20	1.00%-1.27%	50,000	-
Series 2014-B1/B2, tax-exempt	8-18	0.50%-0.92%	46,000	46,000
Series 2007-B, tax-exempt	-	0.48%-0.93%	-	44,621
Series 2005-A, tax-exempt	-	0.45%-0.91%	-	40,000
Series 2005-B, tax-exempt	-	0.50%-0.92%	-	45,000
Series 2005-C, tax-exempt	-	0.47%-0.95%	-	30,000
Series 2002-B, tax-exempt	-	0.50%-0.78%	-	15,000
Total variable-rate bonds			206,000	220,621
Fixed-rate bonds and notes:				
Series 2017-A, taxable	3 mos.-19	1.00%-3.65%	512,480	-
Series 2017-B, taxable	3 mos.-13	0.91%-3.60%	104,380	-
Series 2014-A, tax-exempt	19-27	3.51%-3.65%	49,000	49,000
Series 2009-A/B, tax-exempt	-	3.88%-5.10%	-	312,640
Series 2007-B, tax-exempt	-	4.28%-4.69%	-	60,000
Series 2005-A, tax-exempt	-	4.69%-4.83%	-	35,000
Series 2002-A, tax-exempt	-	3.31%-4.31%	-	25,000
Series 2002-B, tax-exempt	-	4.53%-4.74%	-	14,500
Series 2000-A/B/C, tax-exempt	-	4.37%-5.07%	-	124,400
Series 2016 PANTHER Notes, due August 15, 2017		0.60%	70,000	-
Series 2015 PANTHER Notes, due August 2, 2016		0.30%	-	100,000
Noninterest-bearing promissory note			171	171
Total fixed-rate bonds and notes			736,031	720,711
Unamortized net premium			1,517	12,125
Debt issuance costs			(4,169)	(4,508)
Total bonds and notes payable			\$ 939,379	\$ 948,949

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

2018	\$ 106.0
2019	\$ 43.6
2020	\$ 42.6
2021	\$ 41.6
2022	\$ 41.2

The foregoing principal payments do not include \$206.0 million of variable-rate demand bonds (VRDBs) in commercial paper (CP) mode, all of which have final maturity dates between 2030 and 2041. These bonds bear short-term rates that are fixed over staggered periods of approximately 45 days each and are remarketed at the expiry of their respective rate periods.

Liquidity support for the \$206.0 million of outstanding VRDBs in CP mode is provided by the University. In the event that the University receives notice of an optional tender on its VRDBs in CP mode, the tendered bonds will be purchased with remarketing proceeds. If the remarketing proceeds are insufficient to purchase all tendered bonds, the University would have a current obligation to meet the shortfall. As an additional source of liquidity for this situation, the University entered into a \$75.0 million unsecured standby liquidity agreement with a financial institution that matures in June 2018. Since the University commenced providing self-liquidity in October 2009, there have been no failed remarketings.

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

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

The Series 2017-A and Series 2017-B refundings (A/B refundings) referenced above meet the legal requirements

for defeasance of bond liabilities. Therefore, neither the escrow accounts nor the refunded bonds are included in the Consolidated Balance Sheet at June 30, 2017. The A/B refundings resulted in a \$46.5 million reduction to net assets, which is reflected in the other activities section of the Consolidated Statement of Activities for the year ended June 30, 2017. This reduction in net assets represents the amount of principal required from the A/B refundings in excess of the face value of the refunded bonds, net of interest expense up to the date of the refundings and new debt issuance costs. A \$5.5 million write-off of debt issuance costs and net premiums associated with the refunded bonds is reflected as a net decrease in interest expense in the Consolidated Statement of Activities for the year ended June 30, 2017.

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

In July 2016, the University issued its Pitt Asset Notes – Tax-Exempt Higher Education Series (PANTHERS) of 2016 in the amount of \$70.0 million. The entire amount was used to partially refund the \$100.0 million of PANTHERS of 2015 that matured on August 2, 2016. The PANTHERS of 2016 matured and were repaid on August 15, 2017.

The University had three general unsecured credit facilities aggregating \$75.0 million at June 30, 2017. No draws were made under the facilities during 2017 or 2016. Although each of the three credit facilities carry an expiry date of October 24, 2017, it is management's intention to extend each facility for another 364-day term.

Interest costs incurred in 2017 and 2016 were \$31.3 million and \$42.2 million, respectively. Included in these amounts are net swap payments and capitalized interest associated with various construction projects. Capitalized interest for 2017 and 2016 was \$0.7 million and \$0.8 million, respectively.

NOTE 8: DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

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

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

Not including University derivative instruments held by various alternative investment funds, the University invested in futures contracts with gross notional values of \$50.9 million and \$51.2 million at June 30, 2017 and 2016, respectively. When the University uses futures to replicate an investment position, it has opted to do so on a fully collateralized basis. Futures contracts are marked-to-market daily based on settlement prices established by the board of trade or exchange on which they are traded. Gains and losses are realized when the contracts expire or are closed. There was an unrealized loss on these future contracts of \$0.2 million at June 30, 2017 and an unrealized gain of \$1.4 million at June 30, 2016.

The University liabilities arising from variable-to-fixed interest rate swap agreements associated with certain University debt obligations had an aggregated fair value of \$77.3 million and \$111.1 million at June 30, 2017 and 2016, respectively, and are included in other liabilities on the Consolidated Balance Sheets (see also 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 gains of \$33.8 million in 2017 and unrealized losses of \$34.5 million in 2016 due to changes in fair value of the swaps.

The aggregate notional amount of the swap agreements associated with University debt was \$350.3 million and \$365.3 million at June 30, 2017 and 2016, 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 2017 or 2016 with respect to these swap agreements. Furthermore, the University does not anticipate posting collateral pursuant to these swap agreements since there are no collateral thresholds applicable to the University given the University's current credit ratings.

NOTE 9: PENSION AND POSTRETIREMENT OBLIGATIONS

Pension

The University provides retirement benefits under contributory or noncontributory plans to substantially all employees. The University's contributory plan provides for 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 2017 and 2016 were \$79.0 million and \$76.2 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 2017 and 2016 were \$15.0 million and \$10.9 million, respectively.

Postretirement

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

Though funding is not required, the University has elected to fund its postretirement liability via a quasi-endowment fund, which is managed within the University's pooled endowment investments (see Notes 4 and 10). The fair value of these investments at June 30, 2017 and 2016 was \$410.6 million and \$354.3 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.

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, 2017 and 2016 is summarized in the table below:

	Defined-Benefit Plan		Postretirement Plan	
	2017	2016	2017	2016
	<i>(in thousands of dollars)</i>			
Net periodic benefit cost:				
Service cost	\$ 8,136	\$ 6,255	\$ 19,525	\$ 15,276
Interest cost	5,851	5,605	20,237	21,431
Expected return on plan assets	(7,427)	(6,990)	-	-
Actuarial loss	3,443	1,113	5,789	2,897
Amortization of prior service credit	-	(52)	(4,025)	(3,964)
Net periodic benefit cost	\$ 10,003	\$ 5,931	\$ 41,526	\$ 35,640
Funded status:				
Benefit obligation at beginning of year	\$ 151,266	\$ 117,822	\$ 541,785	\$ 455,755
Service cost	8,136	6,255	19,525	15,276
Interest cost	5,851	5,605	20,237	21,431
Actuarial (gain) loss	(7,000)	22,722	(36,470)	66,435
Benefits paid	(1,376)	(1,138)	(17,037)	(17,112)
Benefit obligation at end of year	\$ 156,877	\$ 151,266	\$ 528,040	\$ 541,785
Fair value of plan assets at beginning of year	\$ 103,666	\$ 94,243		
Actual return on plan assets	13,537	(370)		
Actual plan contributions	15,004	10,931		
Benefits paid	(1,376)	(1,138)		
Fair value of plan assets at end of year	\$ 130,831	\$ 103,666		
Funded status – liability recognized on Consolidated Balance Sheets:				
Pension and postretirement obligations	\$ (26,046)	\$ (47,600)	\$ (528,040)	\$ (541,785)
Accumulated benefit obligation	\$ 149,723	\$ 144,496		

Estimated 2018 employer contribution to the defined-benefit plan:
(in thousands of dollars)

\$ 6,652

	Defined-Benefit Plan		Postretirement Plan	
	2017	2016	2017	2016
Weighted-average assumptions used to determine the benefit obligation (liability) at June 30:				
Discount rate	3.9%	3.9%	3.9%	3.8%
Rate of compensation increase	3.0%	3.0%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.0%	7.0%
Initial trend – post-age 65 retirees	-	-	7.0%	7.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2025	2024

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

Discount rate	3.9%	4.8%	3.8%	4.8%
Rate of compensation increase	3.0%	3.0%	-	-
Expected long-term return on plan assets	7.25%	7.5%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.0%	7.0%
Initial trend – post-age 65 retirees	-	-	7.0%	6.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2024	2023

	Defined-Benefit Plan	Postretirement Plan
Estimated future benefit payments:		
	<i>(in thousands of dollars)</i>	
2018	\$ 2,540	\$ 16,878
2019	\$ 2,821	\$ 19,343
2020	\$ 3,176	\$ 20,587
2021	\$ 3,578	\$ 22,188
2022	\$ 4,024	\$ 23,884
2023 - 2027	\$ 27,357	\$ 140,502

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

	Increase		Decrease	
	(in millions of dollars)			
	Revised Amount	Percent Change	Revised Amount	Percent Change
Service and interest cost (medical component only)	\$ 39.3	6.1%	\$ 32.6	12.1%
Total periodic benefit cost	\$ 45.5	9.5%	\$ 34.2	17.7%
Benefit obligation for health care benefits	\$ 510.7	5.8%	\$ 435.9	9.7%
Total benefit obligation	\$ 556.0	5.3%	\$ 481.6	8.8%

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, 2017 and 2016 was \$130.8 million and \$103.7 million, respectively. The fund is invested through common collective trust funds in domestic and international equities and fixed-income securities using the S&P 500 Index as a benchmark for domestic equities, the MSCI EAFE Index for international equities, and the Barclays Intermediate Government/Credit Bond Index for the fixed-income securities. Common collective trust funds are similar to mutual funds; however, they are generally not registered with the U.S. Securities and Exchange Commission and participation is not open to the public but limited to institutional investors. The specific investment objective is to meet or exceed the investment policy benchmark over the long term. Plan investments are determined using NAV per share available at the measurement date, as published by the fund manager. The plan has no unfunded commitments. Pension plan assets are Level 1 in the fair value hierarchy.

The long-term investment strategy for pension plan assets is to meet present and future benefit obligations to all

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

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

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

	Target Allocation	2017	2016
Asset class:		<i>(in thousands of dollars)</i>	
Equity securities:			
Stock index and small cap	35%	\$ 45,684	\$ 36,616
International	35%	45,748	35,438
Debt securities	30%	39,098	31,312
Cash and cash equivalents	-	301	300
Total pension plan assets		\$ 130,831	\$ 103,666

NOTE 10: ENDOWMENT NET ASSETS

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

percentage of 4.25% of the endowment's three-year average fair value, provided that such distribution is not less than the amount distributed in the previous year. The endowment income distribution amounts for both 2017 and 2016 represent 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:

2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(in thousands of dollars)</i>			
Donor-restricted endowment funds	\$ -	\$ 801,566	\$ 713,522	\$ 1,515,088
Quasi-endowment funds	2,439,453	-	-	2,439,453
Total endowment net assets	\$ 2,439,453	\$ 801,566	\$ 713,522	\$ 3,954,541
2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(in thousands of dollars)</i>			
Donor-restricted endowment funds	\$ -	\$ 686,118	\$ 684,922	\$ 1,371,040
Quasi-endowment funds	2,163,439	-	-	2,163,439
Total endowment net assets	\$ 2,163,439	\$ 686,118	\$ 684,922	\$ 3,534,479

The change in endowment net assets for the years ended June 30, 2017 and 2016 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(in thousands of dollars)</i>			
Endowment net assets – June 30, 2015	\$ 2,164,556	\$ 780,998	\$ 653,935	\$ 3,599,489
Endowment return:				
Endowment earnings	14,978	-	2,237	17,215
Losses	(15,270)	(94,880)	(62)	(110,212)
Total endowment return	(292)	(94,880)	2,175	(92,997)
Contributions	173	-	28,812	28,985
Distributions for operations	(118,245)	-	-	(118,245)
Net transfers	117,247	-	-	117,247
Endowment net assets – June 30, 2016	2,163,439	686,118	684,922	3,534,479
Endowment return:				
Endowment earnings	17,146	-	2,057	19,203
Gains	326,039	115,448	117	441,604
Total endowment return	343,185	115,448	2,174	460,807
Contributions	497	-	26,426	26,923
Distributions for operations	(126,472)	-	-	(126,472)
Net transfers	58,804	-	-	58,804
Endowment net assets – June 30, 2017	\$ 2,439,453	\$ 801,566	\$ 713,522	\$ 3,954,541

Approximately 99% of the University's endowment funds are collectively managed in a broadly diversified pool of assets called the consolidated investment pool. The Investment Committee of the Board of Trustees

provides general oversight, policy guidance, and performance review of the consolidated investment pool and approves asset allocation and spending policies.

NOTE 11: FUNCTIONAL EXPENSES

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

	2017	2016
	<i>(in thousands of dollars)</i>	
Instruction	\$ 581,624	\$ 566,786
Research	707,495	676,069
Public service	85,899	85,449
Academic support	205,833	193,807
Libraries	47,342	47,240
Student services	166,434	150,751
Institutional support	145,404	139,898
Auxiliary enterprises	143,968	142,393
Total functional expenses	\$ 2,083,999	\$ 2,002,393

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

NOTE 12: RELATED PARTIES

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

Certain University SOM faculty and staff provide clinical services through their University appointments to UPMC, UPP, and affiliated hospitals. The University invoices these entities monthly for reimbursement of the clinical portion of the associated compensation costs. SOM faculty members, having both a University academic appointment and a separate, external appointment for clinical responsibilities, participate in the common paymaster arrangement for purposes of determining appropriate FICA taxation. In addition to the reimbursable compensation costs, the University also engages in other

transactions with these entities, which include providing certain facilities-related services, telephone, mailing, printing, and various other services, which are reimbursed at cost. Reimbursements from UPMC, UPP, and affiliated hospitals for clinical compensation and other costs totaled \$136.8 million and \$137.6 million in 2017 and 2016, 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 \$30.0 million and \$29.5 million (including the annual match) in 2017 and 2016, respectively. Effective July 1, 2016, the term of the agreement was extended through June 30, 2020. The amounts from this agreement 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 \$11.6 million and \$10.9 million in 2017 and 2016, 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 \$15.1 million and \$14.7 million in 2017 and 2016, 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 provides additional academic support to the SOM for new programs, faculty recruitment, and general support of the School's academic mission. The University received \$52.5 million and \$59.5 million in 2017 and 2016, respectively, related to this additional support. These amounts are reported as sales and services, educational and other in the Consolidated Statements of Activities.

UPMC also provided \$2.3 million and \$2.9 million in 2017 and 2016, respectively, for the Institute for Personalized Medicine. These amounts are reported as other revenue in the Consolidated Statements of Activities.

Additionally, UPMC provided support to various departments within the SOM to augment their operating budgets. These payments were made to those departments that do not generate sufficient revenues to meet their research and academic costs. Payments made by UPMC for this purpose totaled \$9.3 million and \$9.0

million in 2017 and 2016, 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 in which the University acts as both lessor or lessee with UPMC and its affiliates. Rental revenue from UPMC and affiliates totaled \$10.2 million and \$10.0 million in 2017 and 2016, respectively. Rent expense paid to UPMC and affiliates totaled \$21.9 million in both 2017 and 2016.

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 \$2.4 million and \$2.3 million in 2017 and 2016, 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 \$118.4 million and \$107.2 million in 2017 and 2016, 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 \$12.1 million and \$11.1 million in 2017 and 2016, 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 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. UPMC's share of total operating costs for MHSF totaled \$3.6 million and \$3.7 million in 2017 and 2016, respectively, and is reported as other revenue in the Consolidated Statements of Activities. All contributions generated by MHSF are credited to the University or UPMC based upon donor intent.

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

A lease arrangement exists between the University and the commonwealth for WPIC. Since 1949, the University has managed WPIC under an agreement between the University and the commonwealth whereby the University rents for a consideration of \$1 per year the land, building, equipment, and other items that are used by WPIC. The agreement provides for continuing terms of 10 years each; however, this agreement is cancelable by either party on one year's written notice. In 1992, the University subleased to UPMC the land, building, equipment, and other items subject to the current lease arrangement between the commonwealth and the University. This sublease arrangement continued to be in effect during 2017 and 2016. Included in property, plant,

and equipment is \$191.9 million and \$190.7 million at June 30, 2017 and 2016, respectively, related to the land, buildings, and equipment used by WPIC. Accumulated depreciation related to these assets totaled \$163.8 million and \$159.9 million at June 30, 2017 and 2016, 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 UPMC Hillman Cancer Center (UHCC) research awards are charged to such awards via an electronic billing and reimbursed to UPMC each month. Payments totaled \$23.1 million in 2017 and \$23.2 million in 2016 and are recorded as expenses in the Consolidated Statements of Activities. All billings are recorded at cost.

UPMC provided support payments to UHCC for various subsidies, research initiatives, and general support. These payments totaled \$14.4 million in both 2017 and 2016, and are primarily reported in other revenue in the Consolidated Statements of Activities.

NOTE 13: COMMITMENTS AND CONTINGENCIES

At June 30, 2017 and 2016, the University had outstanding contractual commitments of \$75.6 million and \$63.4 million, respectively, for property, plant, and equipment expenditures.

The University engages in various leasing activities as both a lessor and lessee. Rental revenue from operating leases was \$18.3 million and \$18.4 million in 2017 and 2016, respectively. Rental expense for operating leases was \$47.8 million in 2017 and \$45.5 million in 2016. Minimum future rental revenue and expense under operating leases that have initial or remaining noncancelable lease terms for the years ended June 30 are as follows:

	Rental Revenue	Rental Expense
	<i>(in thousands of dollars)</i>	
2018	\$ 16,524	\$ 46,303
2019	\$ 13,439	\$ 45,130
2020	\$ 6,631	\$ 36,617
2021	\$ 6,179	\$ 22,796
2022	\$ 3,574	\$ 16,829
Thereafter	\$ 11,606	\$ 105,670

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

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

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

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

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

NOTE 14: SUBSEQUENT EVENTS

The University has evaluated subsequent events through September 22, 2017, 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 2017

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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.