



FISCAL YEAR 2023

FINANCIAL REPORT



KPMG LLP
BNY Mellon Center
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Pittsburgh, PA 15219-2598

Independent Auditors' Report

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

Opinion

We have audited the 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, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Pittsburgh, Pennsylvania
October 18, 2023

CONSOLIDATED BALANCE SHEETS
 JUNE 30, 2023 AND 2022
 (in thousands of dollars)

	2023	2022
ASSETS:		
Cash and cash equivalents (Notes 1, 2 and 6)	\$ 172,561	\$ 62,121
Operating investments (Notes 1, 2, 5 and 6)	625,795	1,049,086
Inventories and deferred charges	30,385	30,085
Accounts and notes receivable, net (Notes 2 and 3)	394,641	258,011
Contributions receivable, net (Notes 1 and 4)	67,381	69,688
Student loans receivable, net	25,576	26,636
Foundation assets (Note 1)	38,552	39,499
Endowment investments (Notes 5 and 6)	5,518,961	5,557,014
Endowed funds held by third parties (Note 6)	24,900	23,047
Operating lease right-of-use assets, net (Note 7)	141,458	229,850
Property, plant, and equipment, net (Note 8)	2,640,332	2,397,508
TOTAL ASSETS	\$ 9,680,542	\$ 9,742,545
LIABILITIES:		
Accounts payable and accrued expenses	\$ 143,772	\$ 145,338
Accrued payroll and related liabilities	79,621	100,068
Deferred student and other revenue (Note 1)	60,012	54,937
Advanced receipt of grant funds (Note 1)	121,834	104,360
Other liabilities (Notes 6 and 10)	102,375	121,045
Financing obligation (Note 10)	215,055	209,602
Pension and postretirement obligations, net (Note 11)	497,490	547,893
Right-of-use lease liabilities (Note 7)	179,080	268,912
Bonds and notes payable (Note 9)	1,419,031	1,463,704
TOTAL LIABILITIES	2,818,270	3,015,859
NET ASSETS:		
Without donor restrictions (Notes 1, 12 and 13)		
Endowment designated for financial aid	1,905,636	1,951,175
Other designated endowments	1,434,227	1,425,189
Net invested in plant and other	1,214,976	979,948
Total without donor restrictions	4,554,839	4,356,312
With donor restrictions (Notes 1 and 12)		
Endowments (Note 13)	2,181,239	2,172,400
Other	126,194	197,974
Total with donor restrictions	2,307,433	2,370,374
TOTAL NET ASSETS	6,862,272	6,726,686
TOTAL LIABILITIES AND NET ASSETS	\$ 9,680,542	\$ 9,742,545

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

CONSOLIDATED STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2023
 COMPARED TO SUMMARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2022
 (in thousands of dollars)

	2023		Total	2022
	Without Donor Restrictions	With Donor Restrictions		
OPERATING REVENUES:				
Tuition and fees (net of tuition discounts of \$275.3 million and \$263.2 million)	\$ 693,105	\$ -	\$ 693,105	\$ 657,177
Commonwealth appropriation	193,076	-	193,076	193,266
Commonwealth construction grants	-	13,419	13,419	28,406
Research grants and contracts	1,132,456	-	1,132,456	1,007,555
Grants and contracts – COVID relief	29,831	-	29,831	57,678
Contributions for operations	38,515	20,646	59,161	66,905
Endowment distributions and investment income	238,202	-	238,202	186,952
Sales and services, educational and other	168,510	-	168,510	144,120
Sales and services, auxiliary	161,458	-	161,458	148,569
UPMC academic support (Note 15)	241,254	-	241,254	234,319
Net assets released from restrictions	111,279	(111,279)	-	-
Total operating revenues	3,007,686	(77,214)	2,930,472	2,724,947
OPERATING EXPENSES:				
Salaries and wages	1,298,186	-	1,298,186	1,197,205
Fringe benefits	368,851	-	368,851	366,361
Total compensation	1,667,037	-	1,667,037	1,563,566
Supplies	148,482	-	148,482	133,846
Business and professional	517,033	-	517,033	422,375
Facilities	116,714	-	116,714	99,047
Depreciation	205,073	-	205,073	195,453
Interest	58,751	-	58,751	51,483
Rent	53,367	-	53,367	65,683
Other	46,159	-	46,159	63,878
Total operating expenses (Note 14)	2,812,616	-	2,812,616	2,595,331
Change in net assets from operating activities	195,070	(77,214)	117,856	129,616
OTHER ACTIVITIES:				
Investment earnings, net of endowment distributions for operations	(58,822)	(34,691)	(93,513)	(233,440)
Contributions for endowment	-	48,964	48,964	51,475
Change in fair value of interest rate swaps (Note 10)	17,159	-	17,159	41,868
Other components of net periodic benefit cost (Note 11)	(23,616)	-	(23,616)	(20,985)
Nonperiodic changes in benefit plans (Note 11)	68,736	-	68,736	208,932
Total other activities	3,457	14,273	17,730	47,850
CHANGE IN NET ASSETS	198,527	(62,941)	135,586	177,466
NET ASSETS, BEGINNING OF YEAR	4,356,312	2,370,374	6,726,686	6,549,220
NET ASSETS, END OF YEAR	\$ 4,554,839	\$ 2,307,433	\$ 6,862,272	\$ 6,726,686

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

CONSOLIDATED STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2022
 (in thousands of dollars)

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES:			
Tuition and fees (net of tuition discounts of \$263.2 million)	\$ 657,177	\$ -	\$ 657,177
Commonwealth appropriation	193,266	-	193,266
Commonwealth construction grants	-	28,406	28,406
Research grants and contracts	1,007,555	-	1,007,555
Grants and contracts – COVID relief	57,678	-	57,678
Contributions for operations	35,513	31,392	66,905
Endowment distributions and investment income	186,952	-	186,952
Sales and services, educational and other	144,120	-	144,120
Sales and services, auxiliary	148,569	-	148,569
UPMC academic support (Note 15)	234,319	-	234,319
Net assets released from restrictions	13,481	(13,481)	-
Total operating revenues	2,678,630	46,317	2,724,947
OPERATING EXPENSES:			
Salaries and wages	1,197,205	-	1,197,205
Fringe benefits	366,361	-	366,361
Total compensation	1,563,566	-	1,563,566
Supplies	133,846	-	133,846
Business and professional	422,375	-	422,375
Facilities	99,047	-	99,047
Depreciation	195,453	-	195,453
Interest	51,483	-	51,483
Rent	65,683	-	65,683
Other	63,878	-	63,878
Total operating expenses (Note 14)	2,595,331	-	2,595,331
Change in net assets from operating activities	83,299	46,317	129,616
OTHER ACTIVITIES:			
Investment earnings, net of endowment distributions for operations	(158,063)	(75,377)	(233,440)
Contributions for endowment	-	51,475	51,475
Change in fair value of interest rate swaps (Note 10)	41,868	-	41,868
Other components of net periodic benefit cost (Note 11)	(20,985)	-	(20,985)
Nonperiodic changes in benefit plans (Note 11)	208,932	-	208,932
Total other activities	71,752	(23,902)	47,850
CHANGE IN NET ASSETS	155,051	22,415	177,466
NET ASSETS, BEGINNING OF YEAR	4,201,261	2,347,959	6,549,220
NET ASSETS, END OF YEAR	\$ 4,356,312	\$ 2,370,374	\$ 6,726,686

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
(in thousands of dollars)

	2023	2022
CASH AND CASH EQUIVALENTS:		
End of year	\$ 172,561	\$ 62,121
Beginning of year	62,121	76,412
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 110,440	\$ (14,291)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 135,586	\$ 177,466
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation and amortization	240,856	237,030
Other components of net periodic benefit cost	23,616	20,985
Nonperiodic changes in benefit plans	(68,736)	(208,932)
Financing obligation accreted interest	5,453	-
Amortization of debt issuance costs and bond premiums, net	(5,288)	(5,289)
Loss on disposal of plant assets	2,312	5,522
Investment (gain) loss	(100,575)	62,502
Change in fair value of interest rate swaps	(17,159)	(41,868)
Contributions restricted for long-term investment	(69,779)	(86,415)
Changes in operating assets and liabilities:		
Accounts, notes, contributions, and loans receivable, net	(131,399)	(23,765)
Other assets	(300)	(6,487)
Accounts payable and accrued expenses	8,620	(4,765)
Pension and postretirement obligations	(5,283)	4,003
Other liabilities	591	(13,099)
Operating leases, net	(35,529)	(41,229)
Net cash (used for) provided by operating activities	(17,014)	75,659
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expended for property, plant, and equipment – University	(446,607)	(305,438)
Expended for property, plant, and equipment – commonwealth	(13,419)	(28,406)
Purchases of endowment and operating investments	(3,322,313)	(2,122,491)
Proceeds from sales/maturities of endowment and operating investments	3,882,379	2,289,209
Change in foundation assets and other	947	1,712
Net cash provided by (used for) investing activities	100,987	(165,414)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of debt and other	(39,385)	(41,155)
Proceeds from issuance of debt and other	-	20,000
Repayments on credit facilities	(45,000)	-
Borrowing on credit facilities	45,000	-
Principal payments on finance leases	(1,980)	(1,697)
Contributions restricted for long-term investment	67,832	98,316
Net cash provided by financing activities	26,467	75,464
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 110,440	\$ (14,291)
Supplemental disclosure of cash flow information:		
Cash paid for interest (excluding fees)	\$ 67,946	\$ 62,762
Noncash investing and financing activities:		
Change in accounts payable for property, plant, and equipment	\$ (10,186)	\$ 21,354
Facility obtained through financing obligation	\$ -	\$ 189,602

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

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

The University’s main campus in the City of Pittsburgh comprises 16 schools and several academic centers educating approximately 29,200 students in various undergraduate, graduate, and doctorate-professional programs. Four regional campuses with a total enrollment approximating 4,500 students are located throughout western Pennsylvania.

Relationship with the Commonwealth of Pennsylvania

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

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

Funding from the Commonwealth of Pennsylvania

As a state-related institution, the University receives an annual appropriation from the commonwealth. There is no assurance that such appropriation will continue to be made at current levels or at levels requested by the University. In addition, the commonwealth funds certain capital projects and sponsored research grants and contracts in support of the University’s mission, as presented in the following table:

	2023	2022
	<i>(in thousands of dollars)</i>	
Commonwealth appropriation:		
General support	\$ 151,507	\$ 151,507
Rural Education Outreach – Bradford Campus	3,346	3,346
Supplemental funds – Academic Medical Centers and general support	38,223	38,413
Total commonwealth appropriation	193,076	193,266
Commonwealth construction grants	13,419	28,406
Commonwealth research grants and contracts	18,777	18,048
Total	\$ 225,272	\$ 239,720

Basis of Presentation

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

The other activities section of the Consolidated Statement of Activities includes investment earnings, net of endowment distributions for operations; contributions for endowment; change in fair value of interest rate swaps; other components of net periodic benefit cost; and nonperiodic changes in pension and postretirement benefit plans. Endowment distributions for operations represent those distributions not reinvested in the endowment (see Note 13).

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP) as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

The University's net assets have been classified in accordance with the presence or absence of donor-imposed restrictions and are reported as follows:

- Net assets without donor restrictions – Includes revenues, gains, and losses, which are free from donor restrictions and are available for the general operating purposes of the University. All University expenses are reported as a reduction in net assets without donor restrictions. This class of net assets includes contributions and endowment distributions whose donor-imposed restrictions have been met within the fiscal year as well as endowment funds designated by the University's Board of Trustees or management, as delegated by the board. Restrictions are considered to be released even if unrestricted resources are used for a purpose for which restricted resources are available. Contributions for capital construction or acquisition are reported as net assets without donor restrictions once the asset is placed into service.
- Net assets with donor restrictions – Includes donor-imposed restrictions that may be met by the University through the passage of time or through the use of such funds in accordance with the donor's wishes. These funds include endowed contributions and pledges requiring that the original corpus be maintained in perpetuity. The distributions generated by these contributions may be either expended or reinvested in the endowment in accordance with donor restrictions and endowment contribution and spending policies. This net asset category also includes donor restricted funds to be used as revolving student loan funds in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Consolidated Statement of Activities.

Estimates

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

Revenue Recognition – Contracts with Customers and Accounts Receivable

The University recognizes revenue as it depicts the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in the exchange. The University uses the portfolio approach, a practical expedient, to evaluate if a contract exists and to assess collectability at the time of contract inception based on historical experience. Contracts are periodically reviewed for collectability.

The following table presents the University's net revenue from contracts with customers:

	2023	2022
	<i>(in thousands of dollars)</i>	
Net tuition and fees	\$ 693,105	\$ 657,177
UPMC academic support	241,254	234,319
Sales and services, educational and other	168,510	144,120
Sales and services, auxiliary	161,458	148,569
Total	\$ 1,264,327	\$ 1,184,185

Tuition and fees include tuition from undergraduate, graduate, and doctorate-professional programs (net of discounts), and various academic related fees. The University recognizes this revenue as the academic services are rendered and the performance obligation is met, which occurs ratably over the applicable period of instruction or academic term. Undergraduate programs totaled 71.5% and 71.8% of net tuition and fees in 2023 and 2022, respectively.

Tuition discounts are recorded to the extent that either institutional financial aid or aid funded by contributions, endowment distributions, and grant activities are awarded. Tuition discounts awarded in 2023 and 2022 were \$275.3 million and \$263.2 million, respectively. The portion of tuition discounts attributable to institutional funds in 2023 and 2022 were \$239.9 million and \$229.1 million, respectively. Tuition discounts attributable to contributions, donor-restricted endowment distributions, and grant activities were \$35.4 million and \$34.1 million in 2023 and 2022, respectively. Such discounts are reflected within net tuition and fees.

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

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

Sales and services, auxiliary includes revenues from activities conducted primarily to provide goods or services for students, faculty, and staff. Housing and meal plan revenue included in 2023 and 2022 comprised 85.7% in both years, and is recognized as performance obligations are met, which occurs ratably over the academic term. The remaining revenue consists primarily of book store and parking operations, which is generally recognized at the point of sale.

Students are invoiced prior to the start of the academic term and payment is generally due within three weeks of the start of classes. Student charges are comprised of all educational related items including tuition and educational materials. Receivables related to sales and services are invoiced based upon contractual terms with students and others.

The University maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known troubled accounts, the age of the receivable, the anticipated source of payment, historical allowance considerations, and other currently available evidence. Consideration is also given to any specific known risk areas among the existing accounts receivable balances. Receivables are written off when management determines they will not be collected. Recoveries of receivables previously written off are recorded when received.

The University has no significant contract assets or deferred contract costs at June 30, 2023 or June 30, 2022.

The University recognizes a contract liability, or deferred revenue, for payments received in advance of providing services under certain contracts. Contract liabilities include advanced receipt of student tuition and fees, athletic ticket sales, and housing and food service revenue. These contract liabilities are recorded in deferred student and other revenue on the Consolidated Balance Sheets. Revenue recognized related to prior period contract liabilities in 2023 and 2022 was \$40.4 million and \$39.5 million, respectively.

Revenue Recognition – Contributions

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

Commonwealth appropriation revenue is provided by the commonwealth to support a reduction in tuition rates for Pennsylvania resident students. The reduction in rates in 2023 and 2022 amounted to \$295.8 million and \$294.8 million, respectively, which significantly exceeds the general support appropriation of \$151.5 million in each year. Funds are to be spent in accordance with applicable laws and revenue is recognized ratably over the fiscal year as qualified expenses are incurred.

Commonwealth construction grants are provided by the commonwealth to fund certain capital projects in support of the University's mission. This revenue is classified as with donor restrictions until the capital project is completed and placed in service, at which time the net assets are released from restrictions. During 2023, \$95.4 million of net assets from these capital projects were released from restrictions. There were no net assets from capital projects released from restrictions during 2022.

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 2023 and 2022 was \$1,162.3 million and \$1,065.2 million (including \$29.8 million and \$57.7 million of grants and contracts – COVID relief), respectively, with approximately 65% of the funding awarded through the National Institutes of Health. Most University sponsored activity is conducted on a cost-reimbursable basis with the University recognizing revenue as qualifying expenses are incurred. Certain sponsors, however, provide funding in advance of related expenses, and such funding is recorded as advanced receipt of grant funds on the Consolidated Balance Sheets. There is no assurance that sponsored awards can and will continue to be made at current levels as awards are subject to the availability of an annual appropriation of funds. The University estimates that sponsored awards outstanding as of June 30, 2023 approximate or exceed its recent annual sponsored program activity.

The University initially records at fair value unconditional pledges (which are agreements with donors involving non-reciprocal transfers of cash or other assets) as net assets with donor restrictions or without donor restrictions depending on the existence, or absence, of donor-imposed restrictions. Contributions whose restrictions are met in the same fiscal year in which they are received are reported with net assets without donor restrictions. Contributions receivable are discounted at a risk-adjusted rate commensurate with the donor's payment plan.

Contributed nonfinancial assets received by the University primarily consist of works of art or archived history documents with fair values that are not significant and are reported within contributions for operations in the Consolidated Statement of Activities.

Cash and Cash Equivalents and Operating Investments

Cash equivalents consist of investments with original maturities of 90 days or less. Operating investments include U.S. Treasury instruments and other high-quality, liquid securities that at the time of purchase are rated A3/P-1 or better by Moody's Investors Service or A-/A-1 or better by Standard & Poor's Ratings Services. Operating investments, together with cash and cash equivalents, are utilized to fund the University's short-term operating needs and are invested with the expectation that such securities can be liquidated at their current value in a short time frame. Cash equivalents associated with endowment investments are shown therewith, as such funds are utilized for endowment purposes rather than University operating needs and therefore are not included in cash and cash equivalents for purposes of the statement of cash flows.

Foundation Assets

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

Endowment Investments

The University's endowment investments are reported at fair value. The fair value of direct University holdings in publicly traded securities and exchange traded funds are based upon quoted or published market prices. The fair value of all other investments, which consist of indirect holdings in both privately and publicly traded assets, is determined using net asset value (NAV) per share or unit of interest. Used as a practical expedient for the estimated fair value, NAV per share or its equivalent is provided by the fund managers and reviewed by the University. Indirect holdings of private assets primarily consist of University interests in funds investing in non-marketable alternatives, real assets, private credit, 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 in venture capital, buyout, or recapitalized companies. 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. Private credit consists of debt or debt-like instruments in both public and private companies. Marketable alternatives consist of absolute return-oriented strategies, distressed debt, long/short equity, and other hedging strategies. In the case of indirect holdings, changes in market conditions, economic environment, regulatory environment, currency exchange rates, interest rates, and commodity prices may significantly impact the NAV of the funds holding the investments and, consequently, the fair value of the University's interest in such funds and could materially affect the amounts reported in the consolidated financial statements. Although a secondary market exists for these investments, it is not active, and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant. The University attempts to manage these risks through diversification, ongoing due diligence of fund managers, maintaining adequate liquidity, and continuously monitoring economic and market conditions.

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

Government Loan Funds

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

Derivative Financial Instruments

The University records derivatives at fair value on the Consolidated Balance Sheets with changes in fair value reflected in the Consolidated Statement of Activities (see Note 10).

Split-Interest Agreements

These agreements with donors consist primarily of charitable gift annuities, pooled income funds, and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Endowment investments include \$29.7 million and \$28.1 million at June 30, 2023 and 2022, respectively, and other liabilities include \$14.6 million and \$14.5 million at June 30, 2023 and 2022, respectively, for split-interest agreements.

The University maintains separate and distinct reserve funds adequate to meet future payments of all outstanding charitable gift annuities administered by the University. The University complies with applicable state annuity reserve requirements.

Property, Plant, and Equipment, Net

Property, plant, and equipment is recorded at cost, or if acquired by contribution, at fair value as of the date of the contribution. Depreciation is calculated using the straight-line method. Useful lives generally range from 15 to 40 years for buildings and improvements and 5 to 10 years for furnishings and equipment. As assets are retired, sold, or otherwise disposed, the cost and related accumulated depreciation are removed from the Consolidated Balance Sheets, and gains or losses are recognized in the Consolidated Statement 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 \$12.2 million has been recorded at both June 30, 2023 and 2022, respectively, based upon management's analysis of claims history. This liability is reflected in accrued payroll and related liabilities on the Consolidated Balance Sheets.

The University is also self-insured for other activities, including workers' compensation, unemployment compensation, and certain litigation claims. Liabilities have been established for these programs generally based on third-party administrators' estimates using the University's historical loss experience. The self-insurance accrual is subject to periodic adjustment by the University based on actual loss experience factors. Liabilities for these other self-insured obligations aggregated \$6.8 million and \$8.7 million at June 30, 2023 and 2022, respectively, and are included in accrued payroll and related liabilities on the Consolidated Balance Sheets.

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 2023 or 2022.

Reclassifications

Certain prior year financial information has been aligned to conform to the 2023 presentation.

NOTE 2: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As of June 30, the following financial assets could be made available within one year of the balance sheet date to meet general expenditures:

	2023	2022
	<i>(in thousands of dollars)</i>	
Cash and cash equivalents	\$ 172,561	\$ 62,121
Operating investments	608,127	1,027,559
Accounts and notes receivable, net	394,641	258,011
Expected payout on designated endowment – financial aid	88,475	84,960
Expected payout on endowments – other	131,328	96,370
Financial assets available within one year	\$ 1,395,132	\$ 1,529,021

The University regularly monitors liquidity required to meet all general and capital expenditures, liabilities, and contractual obligations, while striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general operating needs over a twelve-month period, the University considers all expenditures related to its ongoing activities of teaching, research, and public service mission. This includes operating expenses, principal and interest payments on debt, and capital-related expenditures. Resources not available to meet general expenditures within one year may include those with external limitations imposed by donors, laws, contracts, or internal limitations imposed by management restrictions.

The University has various sources of liquidity, including cash and cash equivalents, operating investments, and lines of credit. Operating investments consist of high-quality securities which are utilized to fund the University's short-term operating needs and are invested with the expectation that such securities can be liquidated at their current value in a short time frame.

Accounts and notes receivable consists of amounts due from students; sponsors of research, instruction, and public service initiatives; UPMC; the commonwealth; and various other entities. All amounts are expected to be converted to cash within twelve months. Student loans receivable are not included, as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

The University maintains a management-designated endowment fund, the payout from which is used to support student financial aid. Payout on other endowments represents distributions which are expected to be available for use in the next twelve months. These funds are primarily available to the academic units in which the endowments were directed and are used to support scholarships, chairs, and other initiatives.

To help manage unanticipated liquidity needs, the University has three general unsecured credit facilities aggregating \$75.0 million at June 30, 2023. The University made draws of \$45.0 million against the facilities during 2023 and there were no outstanding balances at June 30, 2023. Termination dates on the lines of credit available at June 30, 2023 range from April 2024 to January 2026. It is management's intention to extend each credit facility.

The University also maintains a \$100.0 million unsecured credit facility at June 30, 2023 to manage the cash flow requirements of the University's endowment. No draws were made against the credit facility during 2023 or 2022, and it terminates in January 2025.

NOTE 3: ACCOUNTS AND NOTES RECEIVABLE, NET

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

	2023	2022
	<i>(in thousands of dollars)</i>	
Sponsored grant receivables, net	\$ 205,999	\$ 190,366
Commonwealth appropriation receivable	109,775	-
Other receivables, net	28,400	23,086
Hospitals and affiliated organizations receivables, net	23,434	15,982
Plant construction receivables due from commonwealth	18,742	20,207
Student receivables, net	8,291	8,370
Total accounts and notes receivable, net	\$ 394,641	\$ 258,011

NOTE 4: CONTRIBUTIONS RECEIVABLE, NET

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

	2023	2022
	<i>(in thousands of dollars)</i>	
Amounts due in:		
Less than one year	\$ 30,602	\$ 23,899
One to five years	34,215	39,619
Greater than five years	14,833	16,419
Gross contributions receivable	79,650	79,937
Less:		
Allowance for uncollectible pledges	(2,261)	(1,573)
Unamortized discounts	(10,008)	(8,676)
Total contributions receivable, net	\$ 67,381	\$ 69,688

At June 30, 2023 and 2022, the five largest outstanding pledge balances represented 52% and 55%, respectively, of the University's net contributions receivable.

The University has been named a beneficiary in the wills of numerous donors totaling \$348.8 million and \$338.7 million at June 30, 2023 and 2022, respectively. Bequests are considered intentions to give and do not fall within the definition of an unconditional pledge, and hence, are not recognized in the consolidated financial statements. University conditional pledges of \$80.3 million and \$91.0 million at June 30, 2023 and 2022, respectively, will be recognized in the consolidated financial statements when the conditions surrounding the pledges are substantially met.

NOTE 5: ENDOWMENT AND OPERATING INVESTMENTS

Investments at June 30 consist of the following:

	2023	2022
	<i>(in thousands of dollars)</i>	
Endowment investments:		
Pooled	\$ 5,475,698	\$ 5,515,967
Nonpooled	43,263	41,047
Subtotal endowment investments	5,518,961	5,557,014
Operating investments	625,795	1,049,086
Total endowment and operating investments	\$ 6,144,756	\$ 6,606,100
Composition of endowment investments:		
Cash equivalents	\$ 172,776	\$ 407,622
Public equities	1,511,329	1,174,904
U.S. government, corporate bonds, and other obligations	225,653	246,643
Alternative investment funds, partnerships, and exchange traded funds:		
Marketable alternatives	723,349	765,191
Nonmarketable alternatives	1,718,615	1,709,210
Real assets	920,994	976,572
Private credit	246,245	276,872
Total endowment investments	\$ 5,518,961	\$ 5,557,014
Composition of operating investments:		
U.S. government and government agencies' securities, repurchase agreements, and commercial paper	\$ 313,692	\$ 587,756
Corporate bonds and other obligations	289,637	436,604
Other	22,466	24,726
Total operating investments	\$ 625,795	\$ 1,049,086

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

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

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

The following table summarizes the University's investments at June 30, 2023 and 2022, for which NAV was used as a practical expedient to estimate fair value:

Asset Class	Fair Value Determined Using NAV		Unfunded Commitments at June 30, 2023	Redemption Frequency	Redemption Notice Period
	2023	2022			
	<i>(in thousands of dollars)</i>				
Public equities	\$ 485,309	\$ 465,149	\$ -	30 days - 2 years	30-90 days
Marketable alternatives:					
Redeemable within one year	603,497	621,298	-	30-365 days	30-90 days
Redeemable beyond one year	67,852	52,992	-	1-3 years	60-90 days
Nonredeemable	52,000	70,263	16,079	NA	NA
Total marketable alternatives	723,349	744,553	16,079		
Nonmarketable alternatives	1,718,615	1,709,210	723,093	NA	NA
Real assets – Nonredeemable	920,994	976,572	294,070	NA	NA
Private credit	246,245	276,872	99,796	NA	NA
Total	\$ 4,094,512	\$ 4,172,356	\$ 1,133,038		

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

Public Equities

A portion of the University's investments in public equities includes interests in six funds that hold publicly traded domestic, international, and emerging market equities.

Marketable Alternatives

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

Nonmarketable Alternatives

The University's investments in nonmarketable alternatives are interests in commingled, private equity funds, including venture capital. These funds are invested in equity and equity-like securities of mostly non-publicly traded companies over investment periods of typically three to five years during which committed capital may be called and invested. The University's interests in private equity funds are considered to be illiquid in that they are not easily transferable and typically achieve liquidity over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund assets. In addition to investments in commingled funds, the University may invest directly in privately-held companies alongside its commingled funds.

Real Assets

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

Private Credit

The University's investments in private credit are interests in commingled funds that hold various combinations of publicly and non-publicly traded assets. These assets generally include, but are not limited to, music royalties, consumer finance, special situations, mezzanine credit, direct lending, and litigation finance. Funds that are nonredeemable typically have investment periods of three to five years during which committed capital may be called and invested. The University's interests in the nonredeemable funds are considered to be illiquid in that they are not easily transferable and typically achieve liquidity over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund assets.

NOTE 6: FAIR VALUE MEASUREMENTS

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

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

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

The following tables summarize the inputs used in valuing the University's assets and liabilities carried at fair value, excluding investments stated at NAV as a practical expedient, at June 30, 2023 and 2022:

	2023			Total
	Level 1	Level 2	Level 3	
Assets	<i>(in thousands of dollars)</i>			
Cash equivalents	\$ 155,917	\$ 16,644	\$ -	\$ 172,561
Endowment investments:				
Cash equivalents	36,235	136,541	-	172,776
Public equities	1,024,705	-	1,315	1,026,020
U.S. government, corporate bonds, and other obligations	219,494	6,159	-	225,653
Subtotal endowment investments ^(a)	1,280,434	142,700	1,315	1,424,449
Operating investments:				
U.S. government, corporate bonds, and other obligations	518,243	85,086	-	603,329
Other	3,723	1,075	17,668	22,466
Endowed funds held by third parties	-	-	24,900	24,900
Total assets	\$ 1,958,317	\$ 245,505	\$ 43,883	\$ 2,247,705
Liabilities				
Interest rate swaps	\$ -	\$ 23,050	\$ -	\$ 23,050

	2022			Total
	Level 1	Level 2	Level 3	
Assets				
		<i>(in thousands of dollars)</i>		
Cash equivalents	\$ 37,271	\$ 24,850	\$ -	\$ 62,121
Endowment investments:				
Cash equivalents	261,354	146,268	-	407,622
Public equities	718,523	(10,059)	1,291	709,755
U.S. government, corporate bonds, and other obligations	225,312	21,331	-	246,643
Marketable alternatives	20,409	229	-	20,638
Subtotal endowment investments ^(a)	1,225,598	157,769	1,291	1,384,658
Operating investments:				
U.S. government, corporate bonds, and other obligations	878,424	145,936	-	1,024,360
Other	3,199	-	21,527	24,726
Endowed funds held by third parties	-	-	23,047	23,047
Total assets	\$ 2,144,492	\$ 328,555	\$ 45,865	\$ 2,518,912
Liabilities				
Interest rate swaps	\$ -	\$ 40,209	\$ -	\$ 40,209

(a) The subtotals of endowment investments within the fair value tables above exclude investments of \$4,094,512 and \$4,172,356 as of June 30, 2023 and 2022, respectively, which are measured at NAV as a practical expedient and are not classified in the fair value hierarchy (see Note 5).

The following table summarizes the change in the Level 3 activity for the years ended June 30, 2023 and 2022:

	Public Equities	Other Operating and Endowed Funds Held by Third Parties	Total
	<i>(in thousands of dollars)</i>		
Fair Value – June 30, 2021	\$ 564	\$ 50,419	\$ 50,983
Capital calls/purchases	267	346	613
Distributions/sales	(373)	(2,628)	(3,001)
Transfers in	1,276	-	1,276
Realized gains	31	2,029	2,060
Unrealized losses	(474)	(5,592)	(6,066)
Fair Value – June 30, 2022	\$ 1,291	\$ 44,574	\$ 45,865
Capital calls/purchases	497	840	1,337
Distributions/sales	(496)	(1,124)	(1,620)
Realized losses	(83)	(860)	(943)
Unrealized gains (losses)	106	(862)	(756)
Fair Value – June 30, 2023	\$ 1,315	\$ 42,568	\$ 43,883

NOTE 7: LEASES

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

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

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

	Location on Consolidated Balance Sheets	2023	2022
Assets:		<i>(in thousands of dollars)</i>	
Operating lease assets	Operating lease right-of-use assets, net	\$ 141,458	\$ 229,850
Finance lease assets	Property, plant, and equipment, net	27,166	29,412
Total lease assets		\$ 168,624	\$ 259,262
Liabilities:			
Operating lease liabilities	Right-of-use lease liabilities	\$ 146,577	\$ 234,798
Finance lease liabilities	Right-of-use lease liabilities	32,503	34,114
Total lease liabilities		\$ 179,080	\$ 268,912

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

	Location on Consolidated Statement of Activities	2023	2022
Operating lease expense	Rent, and business and professional	\$ 40,208	\$ 47,740
Finance lease expense			
Amortization of ROU assets	Depreciation	2,615	2,533
Interest on lease liabilities	Interest	1,734	1,863
Short-term lease expense	Rent	3,900	1,928
Variable lease expense	Rent	15,105	12,970
Total lease cost		\$ 63,562	\$ 67,034

The University recognized \$1.1 million in sublease income included in sales and services, educational and other in the Consolidated Statement of Activities in both 2023 and 2022.

The University purchased the Bridgeside Point II building on August 29, 2022 for a total of \$81.0 million. The University previously leased this entire building with a right of first refusal to purchase provision. Included on the June 30, 2022 Consolidated Balance Sheet is a right-of-use asset of \$53.6 million and a right-of-use lease liability of \$53.5 million. In 2023, the building was included in property, plant, and equipment, net on the Consolidated Balance Sheets.

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

Weighted average remaining lease term (years):	2023	2022
Operating leases	5.61	6.49
Finance leases	11.14	12.19
Weighted average discount rate:		
Operating leases	2.75%	2.47%
Finance leases	4.05%	4.05%

Supplemental cash flow information related to leases as of and for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:	<i>(in thousands of dollars)</i>	
Operating cash flows paid for operating leases	\$ 40,028	\$ 47,494
Operating cash flows paid for interest portion of finance leases	\$ 1,734	\$ 1,863
Financing cash flows paid for principal portion of finance leases	\$ 1,980	\$ 1,697
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 3,780	\$ 16,926
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 369	\$ -
Reduction of right-of-use assets for terminations of lease agreements	\$ (56,542)	\$ (1,231)

The approximate future minimum lease payments under operating and financing leases as of June 30, 2023 are as follows:

	Operating Leases	Finance Leases
	<i>(in thousands of dollars)</i>	
2024	\$ 36,048	\$ 3,742
2025	29,962	3,673
2026	27,363	3,705
2027	20,918	3,697
2028	14,927	3,690
Thereafter	29,065	23,365
Total lease payments	158,283	41,872
Less: imputed interest	(11,706)	(9,369)
Present value of lease liabilities	\$ 146,577	\$ 32,503

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

	Lessor Rental Revenue
	<i>(in thousands of dollars)</i>
2024	\$ 13,955
2025	4,695
2026	3,770
2027	2,056
2028	1,203
Thereafter	306
Total	\$ 25,985

NOTE 8: PROPERTY, PLANT, AND EQUIPMENT, NET

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

	2023	2022
	<i>(in thousands of dollars)</i>	
Land	\$ 116,294	\$ 110,296
Buildings and improvements	4,284,236	3,992,528
Equipment	951,484	912,134
Library books	355,698	344,045
Works of art, historical treasures, and similar assets	25,192	25,043
Construction in progress	504,051	426,360
Subtotal	6,236,955	5,810,406
Less: Accumulated depreciation	(3,596,623)	(3,412,898)
Total property, plant, and equipment, net	\$ 2,640,332	\$ 2,397,508

The amount capitalized in property, plant, and equipment related to expenditures funded by the commonwealth on behalf of the University totaled \$888.3 million and \$794.4 million at June 30, 2023 and 2022, respectively. The net book value of these items was \$333.0 million and \$266.5 million at June 30, 2023 and 2022, respectively.

The University has recognized a liability for conditional asset retirement obligations and through an analysis of such obligations, determined that asbestos remediation costs represented the primary source of the liability. The University reviewed facilities on all campuses and estimated the timing, method, and cost of remediation. The resulting liability for conditional asset remediation obligations recognized at June 30, 2023 and 2022 was \$23.6 million and \$23.9 million, respectively, and is reported in other liabilities on the Consolidated Balance Sheets.

NOTE 9: BONDS AND NOTES PAYABLE

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

	Range of Years Remaining to Maturity	2023 Effective Interest Rates	Outstanding Principal <i>(in thousands of dollars)</i>	
			2023	2022
Variable-rate bonds and notes:				
Series 2014-B1/B2, tax-exempt	2 - 12	1.00% - 3.60%	\$ 46,000	\$ 46,000
Series 2019 PANTHER™ Notes, due February 15, 2024		1.23% - 4.14%	200,000	200,000
Total variable-rate bonds and notes			246,000	246,000
Fixed-rate bonds and notes:				
Series 2014-A, tax-exempt	13 - 21	3.51% - 3.65%	49,000	49,000
Series 2017-A, taxable	3 mos. - 13	2.53% - 3.65%	274,300	312,600
Series 2017-B, taxable	3 mos. - 7	2.67% - 3.60%	98,145	99,230
Series 2017-C, taxable	8 - 18	2.53% - 3.01%	160,000	160,000
Series 2019-A, taxable	96	3.56%	400,000	400,000
Series 2021 PANTHER™ Notes, due April 15, 2026		0.63%	181,265	181,265
Noninterest-bearing promissory note			171	171
Total fixed-rate bonds			1,162,881	1,202,266
Unamortized net premium			17,242	23,109
Debt issuance costs			(7,092)	(7,671)
Total bonds and notes payable			\$1,419,031	\$1,463,704

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

2024	\$ 240.8
2025	\$ 39.7
2026	\$ 218.2
2027	\$ 36.0
2028	\$ 35.8

The foregoing principal payments do not include \$46.0 million of variable-rate demand bonds (VRDBs) in commercial paper (CP) mode, all of which have maturity dates between 2025 and 2035. These bonds bear short-term rates that are fixed over staggered periods of approximately 60 to 120 days each and are remarketed at the expiration of their respective rate periods.

Liquidity support for the \$46.0 million of outstanding VRDBs in CP mode is provided by the University. In the event that the University receives notice of an optional tender on its VRDBs in CP mode, the tendered bonds will be purchased with remarketing proceeds. If the remarketing proceeds are insufficient to purchase all tendered bonds, the University would have a current obligation to meet the shortfall. Since the University commenced providing self-liquidity in October 2009, there have been no failed remarketings.

Interest expense incurred in 2023 and 2022 was \$58.8 million and \$51.5 million, respectively. Included in these amounts are net swap payments, capitalized interest associated with various construction projects, and interest expense derived from other financing liabilities. Capitalized interest for 2023 and 2022 was \$8.6 million and \$4.2 million, respectively.

NOTE 10: DERIVATIVES AND OTHER FINANCIAL OBLIGATIONS

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

The University may be exposed to financial loss should a derivative counterparty fail to perform pursuant to the instrument. Counterparties are typically financial institutions or exchanges. Counterparty risks are mitigated by using creditworthy counterparties, settling positions periodically, and requiring collateral to be posted at predetermined levels of exposure.

Not including University derivative instruments held by various alternative investment funds, the University invested in futures and total return swap contracts with gross notional values of \$44.7 million and \$272.8 million at June 30, 2023 and 2022, respectively. When the University uses futures and total return swaps to replicate an investment position, it may also post required collateral. Futures contracts and total return swaps are marked-to-market daily based on settlement prices established by the exchange or the appropriate International Swaps and Derivatives Association (ISDA) counterparty with which they are traded. Gains and losses are realized when the contracts expire or are closed. There were unrealized losses of \$0.6 million and \$18.4 million on these future and total return swap contracts at June 30, 2023 and June 30, 2022, respectively.

The University's liability arising from variable-to-fixed interest rate swap agreements associated with certain University debt obligations had an aggregated fair value of \$23.0 million and \$40.2 million at June 30, 2023 and 2022, respectively, and are included in other liabilities on the Consolidated Balance Sheets (see also Note 6). The fair value represents the estimated amount the University would be required to pay to terminate these agreements as of the respective fiscal year-end. The University recognized in the Consolidated Statement of Activities unrealized gains of \$17.2 million and \$41.9 million in 2023 and 2022, respectively, due to changes in fair value of the swaps.

The aggregate notional amount of the swap agreements associated with University debt was \$280.3 million and \$295.3 million at June 30, 2023 and 2022, 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 Statement of Activities. No collateral was called or posted during 2023 or 2022 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.

In May 2019, the University entered into a transaction with a third-party developer to develop a mixed-use facility consisting of commercial, laboratory, parking, and office space. The land upon which the facility was constructed is owned by the University and ground leased to the developer for a term of 65 years. Construction of the facility was completed in January 2022 and leased by the University for an initial term of 16 years with additional options to extend the lease to 65 years. This facility consists of laboratory and other research-oriented space and is occupied by University personnel. Initial payments amount to \$1.3 million per month with an escalation of 2% per year during the term of the lease agreement. Interest will be accreted to the financing obligation until monthly payments exceed the imputed interest expense, which is anticipated to be in 2064. Since the building improvements constructed by the developer relate to an existing building, for which the University is the accounting owner, the University determined that it controlled the facility prior to the lease commencement. Therefore, the University includes an asset reported at cost within property, plant, and equipment, net and the outstanding financing obligation on the Consolidated Balance Sheets.

NOTE 11: PENSION AND POSTRETIREMENT OBLIGATIONS

Pension

The University provides retirement benefits under contributory or noncontributory plans to substantially all employees. The University's contributory plan provides for participant directed investment in certain investments managed by the Teachers Insurance and Annuity Association (TIAA) and 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 2023 and 2022 were \$99.5 million and \$93.3 million, respectively.

The noncontributory plan is a defined-benefit pension plan that covers employees who do not participate in the contributory plan. The plan was amended to freeze new entrants effective November 3, 2015. The plan provides for vesting after five years with pension benefits accruing at 2.1% of base salary or the Social Security wage base, whichever is lower. Pension benefits are payable upon normal retirement at age 65 or early retirement at age 55, in accordance with the conditions and pension eligibility criteria described in the plan. University contributions to this plan in 2023 and 2022 were \$2.3 million and \$4.3 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 set aside funds within a Board designated endowment to fund its postretirement liability, which is managed within the University's pooled endowment investments (see Notes 5 and 13). The fair value of this fund at June 30, 2023 and 2022 was \$648.3 million and \$660.7 million, respectively, and is included in endowment investments on the Consolidated Balance Sheets. Although the University has established this endowment for the postretirement plan, payments to beneficiaries of this plan are currently made through non-endowed operating funds.

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

The University uses a measurement date of June 30 for plan assets and the benefit obligations. Information related to the benefit obligation, assets, and funded status of the defined-benefit pension plan and the postretirement benefit plan as of and for the years ended June 30, 2023 and 2022 is summarized in the table below:

	Defined-Benefit Plan		Postretirement Plan	
	2023	2022	2023	2022
	<i>(in thousands of dollars)</i>			
Service cost	\$ 4,149	\$ 7,418	\$ 17,934	\$ 26,304
Other components of net periodic benefit cost:				
Interest cost	\$ 9,807	\$ 8,213	\$ 25,482	\$ 20,179
Expected return on plan assets	(12,081)	(13,994)	-	-
Actuarial loss	409	2,662	-	3,925
Total	\$ (1,865)	\$ (3,119)	\$ 25,482	\$ 24,104
Funded status:				
Benefit obligation at beginning of year	\$ 205,818	\$ 265,530	\$ 533,625	\$ 686,401
Service cost	4,149	7,418	17,934	26,304
Interest cost	9,807	8,213	25,482	20,179
Actuarial gain	(13,704)	(71,540)	(42,238)	(173,838)
Benefits paid	(3,389)	(3,803)	(25,082)	(25,421)
Benefit obligation at end of year	\$ 202,681	\$ 205,818	\$ 509,721	\$ 533,625
Fair value of plan assets at beginning of year	\$ 191,550	\$ 220,094		
Actual return on plan assets	24,467	(29,040)		
Actual plan contributions	2,284	4,299		
Benefits paid	(3,389)	(3,803)		
Fair value of plan assets at end of year	\$ 214,912	\$ 191,550		
Funded status – liability recognized on Consolidated Balance Sheets:				
Pension and postretirement obligations, net	\$ 12,231	\$ (14,268)	\$ (509,721)	\$ (533,625)
Accumulated benefit obligation	\$ 196,539	\$ 199,631		

Estimated 2024 employer contribution to the defined-benefit plan:

(in thousands of dollars)

\$ 741

In 2023 and 2022, the actuarial gains on the benefit obligations for the defined-benefit pension and post-retirement plans are due to increases in the discount rates.

	Defined-Benefit Plan		Postretirement Plan	
	2023	2022	2023	2022
Weighted-average assumptions used to determine the benefit obligation (liability) at June 30:				
Discount rate	5.4%	4.9%	5.35%	4.9%
Rate of compensation increase	3.0%	3.0%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.5%	7.0%
Initial trend – post-age 65 retirees	-	-	6.5%	6.0%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2033	2032
Mortality rate table	Pri-2012	Pri-2012	Pri.H-2012	Pri.H-2012
Mortality improvement scale	MP-2021	MP-2021	MP-2021	MP-2021

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

Discount rate	4.9%	3.15%	4.9%	3.0%
Rate of compensation increase	3.0%	3.0%	-	-
Expected long-term return on plan assets	6.5%	6.5%	-	-
Assumed health care trend cost:				
Initial trend – pre-age 65 retirees	-	-	7.0%	7.0%
Initial trend – post-age 65 retirees	-	-	6.0%	6.5%
Ultimate trend	-	-	4.5%	4.5%
Year to reach ultimate	-	-	2032	2031

Estimated future benefit payments:

	Defined-Benefit Plan		Postretirement Plan	
	<i>(in thousands of dollars)</i>			
2024	\$	19,314	\$	24,323
2025	\$	7,612	\$	27,131
2026	\$	8,111	\$	28,225
2027	\$	8,631	\$	29,298
2028	\$	9,166	\$	31,030
2029 – 2033	\$	53,742	\$	178,479

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, 2023 and 2022 was \$214.9 million and \$191.6 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 Bloomberg Barclays U.S. Aggregate Index for the fixed-income securities. Common collective trust funds are similar to mutual funds; however, they are generally not registered with the U.S. Securities and Exchange Commission and participation is not open to the public but limited to institutional investors. The specific investment objective is to meet or exceed the investment policy benchmark over the long term. Plan investment valuations are determined using NAV per share available at the measurement date, as published by the fund manager. The plan has no unfunded commitments. Pension plan assets are categorized in Level 1 of the fair value hierarchy.

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

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

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

Asset class:	Target Allocation	2023	2022
		<i>(in thousands of dollars)</i>	
Equity securities:			
Stock index and small cap	35%	\$ 77,606	\$ 65,725
International	35%	72,869	66,884
Debt securities	30%	62,063	58,590
Cash and cash equivalents	-	2,374	351
Total pension plan assets		\$ 214,912	\$ 191,550

NOTE 12: NET ASSETS

Net assets at June 30 consist of the following:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(in thousands of dollars)</i>		
Endowments – instruction and academic support	\$ -	\$ 1,389,260	\$ 1,389,260
Endowments – financial aid	-	526,813	526,813
Endowments – other	-	265,166	265,166
Endowment designated for financial aid	1,905,636	-	1,905,636
Endowment designated for postretirement benefits	648,287	-	648,287
Endowments designated for schools and other	785,940	-	785,940
Total endowment net assets	3,339,863	2,181,239	5,521,102
Net invested in plant and other	1,214,976	5,741	1,220,717
Pledges, loan funds, and other	-	120,453	120,453
Total net assets	\$ 4,554,839	\$ 2,307,433	\$ 6,862,272

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(in thousands of dollars)</i>		
Endowments – instruction and academic support	\$ -	\$ 1,393,207	\$ 1,393,207
Endowments – financial aid	-	514,543	514,543
Endowments – other	-	264,650	264,650
Endowment designated for financial aid	1,951,175	-	1,951,175
Endowment designated for postretirement benefits	660,721	-	660,721
Endowments designated for schools and other	764,468	-	764,468
Total endowment net assets	3,376,364	2,172,400	5,548,764
Net invested in plant and other	979,948	87,730	1,067,678
Pledges, loan funds, and other	-	110,244	110,244
Total net assets	\$ 4,356,312	\$ 2,370,374	\$ 6,726,686

Endowments with donor restrictions require the original corpus be maintained in perpetuity. The distributions generated by these funds may be either expended or reinvested in the endowment, in accordance with donor restrictions and the endowment contribution and spending policy (see Note 13). Expendable funds are made available for the schools to use for instruction, academic support, scholarships, fellowships, chairs and other academic initiatives in accordance with donor wishes and University policy. The corpus of endowment funds with donor restrictions was \$924.5 million and \$875.1 million as of June 30, 2023 and 2022, respectively. Pledges, loan funds, and other includes endowed and non-endowed pledges and student loan funds restricted by donors.

The endowment designated for financial aid was established exclusively to provide financial aid to students. During 2023 and 2022, the endowment distributed \$84.8 million and \$76.0 million, respectively (see Note 2).

The endowment designated for postretirement benefits was established by the Board of Trustees to support the University's postretirement health and life insurance benefits for employees. Distributions from this endowment totaled \$25.7 million and \$22.7 million in 2023 and 2022, respectively. There were no distributions returned to principal in 2023 and \$17.0 million was returned to principal in 2022. Postretirement liabilities of \$509.7 million and \$533.6 million as of June 30, 2023 and 2022, respectively, are reported in pension and postretirement obligations, net on the Consolidated Balance Sheets (see Note 11).

Endowments designated for schools and other include both Board of Trustees and management designated endowments. Endowments designated for schools supports scholarships, fellowships, chairs, and other academic initiatives. Endowments designated by management support self-insurance liabilities and other general purposes. Cash not yet invested in the consolidated endowment pool as of June 30 is included in endowments designated for schools and other.

Invested in plant and other primarily includes the value of University property net of debt, and the impact of capital-related and retirement obligations. Capital-related obligations includes the change in valuation of the University's interest rate swap agreements and the conditional asset retirement obligation (see Note 8).

NOTE 13: ENDOWMENT NET ASSETS

The commonwealth has not adopted The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and, instead, enacted in December 1998 Pennsylvania Act 141 (codified as Title 15 of the Pennsylvania Consolidated Statutes §5548(c) and referred to herein as Title 15) to govern the investment of restricted funds held in trust by Pennsylvania nonprofit corporations. Title 15 permits Pennsylvania nonprofit corporations to elect a total return approach for determining income distributions from restricted funds held in trust, whereby income is defined as a stipulated percentage of the value of the assets held; the stipulated percentage must be determined at least annually and may be no less than 2% nor more than 7%, and the value of the assets held must be averaged over a period of three or more preceding years. A resolution to elect a total return approach for determining endowment income distributions for the University's consolidated investment pool was passed by the University's Board of Trustees on October 21, 1999. The University's endowment income distribution is determined annually using a stipulated percentage of 4.25% of the endowment's three-year average fair value for all endowments except the endowment designated for financial aid, which is distributed at 4.75%, provided that such distribution is not less than the amount distributed in the previous year.

Employing the total return approach, the University records the original value of an endowed contribution as net assets with donor restrictions, along with any endowment income distributions that are reinvested in the endowment. Non-endowed funds that lack third-party donor restrictions but function as endowments (designated endowments) are classified as net assets without donor restrictions. Gains and losses attributable to donor-restricted endowed funds and designated endowment funds are recorded as net assets with donor restrictions and without donor restrictions, respectively.

The change in endowment net assets for the years ended June 30, 2023 and 2022 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(in thousands of dollars)</i>		
Endowment net assets – June 30, 2021	\$ 3,453,934	\$ 2,205,940	\$ 5,659,874
Endowment return	2,379	(1,164)	1,215
Contributions	951	38,583	39,534
Distributions for operations	(101,110)	(70,959)	(172,069)
Net transfers	20,210	-	20,210
Endowment net assets – June 30, 2022	\$ 3,376,364	\$ 2,172,400	\$ 5,548,764
Endowment return	84,200	44,538	128,738
Contributions	644	45,550	46,194
Distributions for operations	(132,441)	(81,249)	(213,690)
Net transfers	11,096	-	11,096
Endowment net assets – June 30, 2023	\$ 3,339,863	\$ 2,181,239	\$ 5,521,102

Approximately 99% of the University's endowment funds are collectively managed in a broadly diversified pool of assets called the consolidated investment pool. The Investment Committee of the Board of Trustees provides general oversight, policy guidance, and performance review of the consolidated investment pool and approves asset allocation and spending policies.

NOTE 14: FUNCTIONAL EXPENSES

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

	2023					
	Program Services					
	Academics	Research and Related	Student Services	Auxiliary Enterprises	Support Services	Total
	<i>(in thousands of dollars)</i>					
Salaries and wages	\$ 617,157	\$ 467,093	\$ 92,925	\$ 24,198	\$ 96,813	\$ 1,298,186
Fringe benefits	170,103	130,317	30,440	8,383	29,608	368,851
Total compensation	787,260	597,410	123,365	32,581	126,421	1,667,037
Supplies	36,975	87,062	11,205	3,815	9,425	148,482
Business and professional	80,225	273,388	53,483	49,819	60,118	517,033
Facilities	48,307	28,874	10,393	21,936	7,204	116,714
Depreciation	88,150	54,791	21,266	27,274	13,592	205,073
Interest	25,863	16,219	6,232	6,449	3,988	58,751
Rent	19,600	17,097	6,351	4,179	6,140	53,367
Other	13,956	8,580	11,187	23,304	(10,868)	46,159
Total operating expenses	1,100,336	1,083,421	243,482	169,357	216,020	2,812,616
Other components of net periodic benefit cost	11,227	8,497	1,690	440	1,762	23,616
Total	\$ 1,111,563	\$ 1,091,918	\$ 245,172	\$ 169,797	\$ 217,782	\$ 2,836,232

	2022					
	Program Services					
	Academics	Research and Related	Student Services	Auxiliary Enterprises	Support Services	Total
	<i>(in thousands of dollars)</i>					
Salaries and wages	\$ 580,315	\$ 425,396	\$ 83,260	\$ 21,219	\$ 87,015	\$ 1,197,205
Fringe benefits	173,444	128,600	29,214	6,962	28,141	366,361
Total compensation	753,759	553,996	112,474	28,181	115,156	1,563,566
Supplies	32,113	80,155	9,617	5,107	6,854	133,846
Business and professional	46,647	229,756	45,913	46,069	53,990	422,375
Facilities	42,440	22,032	8,630	19,397	6,548	99,047
Depreciation	86,410	47,563	20,654	27,843	12,983	195,453
Interest	22,614	12,556	5,400	7,522	3,391	51,483
Rent	23,716	27,237	2,444	7,567	4,719	65,683
Other	6,910	11,265	30,718	22,479	(7,494)	63,878
Total operating expenses	1,014,609	984,560	235,850	164,165	196,147	2,595,331
Other components of net periodic benefit cost	10,172	7,456	1,459	372	1,526	20,985
Total	\$ 1,024,781	\$ 992,016	\$ 237,309	\$ 164,537	\$ 197,673	\$ 2,616,316

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

Academics includes instructional, academic support, and library costs. Research and related includes sponsored programs related to research and development as well as public service activity such as clinical trials. Student services represents expenses supporting the well-being and development of students outside of direct instruction, including student admissions, registration, counseling and advising, as well as intercollegiate athletics. Auxiliary enterprises consists of costs to provide services to students, faculty, and staff, such as student housing, meal plans, parking, and book store activity. Support services consists of institution-wide administrative functions in support of the University's academic, research, and public service mission.

NOTE 15: RELATED PARTIES

The University has relationships and affiliation agreements with separately incorporated entities including UPMC and affiliated hospitals and UPP. These relationships include a common paymaster arrangement for certain University School of Medicine (SOM) faculty; contractual obligations for UPMC and UPP to support certain educational and research functions at the University; and property rental agreements. There is no guarantee these agreements will be renewed in future periods. Transactions with all related entities are conducted in the ordinary course of business and are discussed below.

The following summarizes the significant related party transactions between the University and UPMC for the years ended June 30, 2023 and 2022:

Service Agreement	Location on the Consolidated Financial Statements	2023	2022
		<i>(in thousands of dollars)</i>	
Common paymaster arrangement ^(a)	Balance sheet	\$ 28,384	\$ 32,183
Facilities-related services, mail, telephone, printing, and other services ^(a)	Balance sheet	2,830	16,492
Accounts and notes receivable billed to UPMC		\$ 31,214	\$ 48,675
UPMC dual faculty support ^(b)	UPMC academic support	\$ 82,446	\$ 80,572
UPMC dean's tax, Children's Hospital of Pittsburgh, and other academic support ^(c)	UPMC academic support	77,948	82,956
UPMC academic affiliation agreement ^(d)	UPMC academic support	33,000	32,500
UPMC Hillman Cancer Center research support payments ^(e)	UPMC academic support	26,389	17,734
Rental revenue ^(f)	UPMC academic support	8,891	8,790
Health Sciences Library System ^(g)	UPMC academic support	6,389	6,016
Cost sharing for Medical and Health Sciences Foundation ^(h)	UPMC academic support	3,911	3,712
Institute for Personalized Medicine	UPMC academic support	2,280	2,039
Revenues from UPMC for academic support		241,254	234,319
UPMC grant revenue ⁽ⁱ⁾	Research grants and contracts	5,984	10,402
Total Revenues from UPMC		\$ 247,238	\$ 244,721
Health insurance coverage for University employees ^(j)	Fringe benefits	\$ 158,342	\$ 152,618
Rental expense paid to UPMC ^(f)	Rent	15,240	14,540
WPIC and UPMC Hillman Cancer Center research services ^(k)	Primarily compensation	34,139	29,643
Expenses paid to UPMC		\$ 207,721	\$ 196,801

- (a) Certain University SOM faculty and staff provide services through their University appointments to UPMC, UPP, and affiliated hospitals. The University invoices these entities monthly for reimbursement of the associated compensation costs. SOM faculty members, having both a University academic appointment and a separate, external appointment to UPMC or one of its affiliates, participate in the common paymaster arrangement for purposes of determining appropriate FICA taxation. In addition to the reimbursable compensation costs, the University also engages in other transactions with these entities, which include providing certain facilities-related services, telephone, mailing, printing, and various other services, which are reimbursed at cost.

- (b) Beginning in fiscal year 2020, UPP and the University entered into a funding arrangement to broadly support the SOM and its missions. The funding arrangement specifies monthly remittances which can be used for operations.
- (c) UPMC provides support to the SOM for the school's general academic mission, research, new programs, and faculty recruitment; and to augment operating budgets for certain departments that do not generate sufficient revenues to meet their academic and research costs. Additionally, UPMC provides financial support to the SOM through the Children's Hospital of Pittsburgh of UPMC (CHP), which supports pediatric research programs.
- (d) The University signed an agreement with UPMC that included financial commitments designed to further the two entities' commitment to their interrelated teaching, research, clinical care, and community service missions. As part of the agreement, UPMC provides annual funding for the SOM.
- (e) UPMC provides support payments to the UPMC Hillman Cancer Center (UHCC) for various subsidies, research initiatives, and general support.
- (f) The University is involved in certain rental arrangements in which the University acts as both lessor or lessee with UPMC and its affiliates.
- (g) UPMC provides support for their use of the University's Health Sciences Library System.
- (h) 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.
- (i) A portion of the University's sponsored program activity is provided by UPMC.
- (j) UPMC serves as the provider of health insurance coverage to all eligible University employees who enroll in the plan. The University is self-insured for these costs and reimburses UPMC for actual claims cost.
- (k) The University has an arrangement with UPMC whereby certain research-related costs incurred by UPMC (primarily staff compensation) in relation to the Western Psychiatric Institute and Clinic (WPIC) and UHCC research awards are charged to such awards via an electronic billing and reimbursed to UPMC each month.

A lease arrangement exists between the University and the commonwealth for WPIC. Since 1949, the University has managed WPIC under an agreement between the University and the commonwealth whereby the University rents for a consideration of \$1 per year the land, building, equipment, and other items that are used by WPIC. The agreement provides for continuing terms of 10 years each; however, this agreement is cancelable by either party on one year's written notice. In 1992, the University subleased to UPMC the land, building, equipment, and other items subject to the current lease arrangement between the commonwealth and the University. This sublease arrangement continued to be in effect during 2023 and 2022. Included in property, plant, and equipment is \$187.9 million and \$186.5 million at June 30, 2023 and 2022, respectively, related to the land, buildings, and equipment used by WPIC. Accumulated depreciation related to these assets totaled \$166.9 million and \$163.8 million at June 30, 2023 and 2022, respectively.

NOTE 16: COMMITMENTS AND CONTINGENCIES

Coronavirus Pandemic

In March 2020, the World Health Organization declared the novel coronavirus (COVID) a pandemic, which has negatively affected national, state, and local economies; global financial markets; and the higher education landscape in general. While the federal COVID public health emergency declaration ended on May 11, 2023, the University continues to monitor COVID, which may further adversely affect operations and financial condition, including, among other things, the ability of the University to conduct its operations and/or the cost of operations; governmental and non-governmental funding; and financial markets impacting investments valuation and interest rates. The University is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic, research, and public service missions.

Utilizing COVID relief funds, the University distributed student emergency grants of approximately \$7.7 million and \$27.6 million in 2023 and 2022, respectively. Total COVID relief revenues of \$29.8 million and \$57.7 million are recognized as grants and contracts – COVID relief in the Consolidated Statement of Activities in 2023 and 2022, respectively, including the portion allocable to meet institutional needs.

Other Commitments and Contingencies

At June 30, 2023 and 2022, the University had outstanding contractual commitments of \$581.0 million and \$201.2 million, respectively, for property, plant, and equipment expenditures.

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

The University receives significant financial assistance from the federal government including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of indirect costs is recorded at predetermined rates negotiated with the federal government. Indirect cost recovery rates from nonfederal sources may vary. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant or contract agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants and contracts, and the University's indirect cost rate, are subject to financial and compliance reviews and audits by the grantors. Funds received through federal sources are subject to audit each year in accordance with the Office of Management and Budget's Uniform Guidance. In management's opinion, the likelihood of a material adverse outcome on the University's financial position from those reviews and audits is remote.

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

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

NOTE 17: SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 18, 2023, the date on which the consolidated financial statements were issued and determined there were no subsequent events requiring additional disclosure or adjustment to the consolidated financial statements.

MEMBERSHIP OF THE BOARD OF TRUSTEES

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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.