



# UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED MARCH 31, 2021

**UPMC**  
LIFE CHANGING MEDICINE

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## TABLE OF CONTENTS

<b>Introduction to Management's Discussion and Analysis</b> . . . . .	1
<b>Management's Discussion and Analysis</b> . . . . .	3
Consolidated Financial Highlights . . . . .	3
Business Highlights . . . . .	4
Condensed Consolidating Statements of Operations . . . . .	6
Divisional Information . . . . .	7
Revenue and Operating Metrics . . . . .	9
Key Financial Indicators . . . . .	12
Market Share . . . . .	13
Asset and Liability Management . . . . .	14
<b>Utilization Statistics</b> . . . . .	16
<b>Outstanding Debt</b> . . . . .	17
<b>Debt Covenant Calculations</b> . . . . .	18
<b>Unaudited Interim Condensed Consolidated Financial Statements</b> . . . . .	19
Review Report of Independent Auditors . . . . .	20
Consolidated Balance Sheets . . . . .	21
Consolidated Statements of Operations and Changes in Net Assets . . . . .	22
Consolidated Statements of Cash Flows . . . . .	23
Notes to Unaudited Consolidated Financial Statements . . . . .	24

The following financial data as of March 31, 2021 and for the three-month periods ended March 31, 2021 and 2020 is derived from the interim condensed consolidated financial statements of UPMC. The interim condensed consolidated financial statements include all adjustments consisting of a normal recurring nature that UPMC considers necessary for a fair presentation of its financial position and the results of operations for these periods. The financial information as of December 31, 2020 is derived from UPMC's audited consolidated financial statements. Operating and financial results reported herein are not necessarily indicative of the results that may be expected for any future periods.

The information contained herein is being filed by UPMC for the purpose of complying with its obligations under Continuing Disclosure Agreements entered into in connection with the issuance of the series of bonds listed herein and disclosure and compliance obligations in connection with various banking arrangements. Digital Assurance Certification, L.L.C., as Dissemination Agent, has not participated in the preparation of this Unaudited Financial and Operating Report, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.



# INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

UPMC, doing business as the University of Pittsburgh Medical Center, is one of the world's leading Integrated Delivery and Financing Systems ("IDFS"). UPMC is based in Pittsburgh, Pennsylvania and primarily serves residents across the Commonwealth of Pennsylvania, as well as western New York and northwestern Maryland. We also draw patients for highly specialized services from across the nation and around the world. UPMC's more than 40 hospitals and 700 clinical locations comprise one of the largest nonprofit health systems in the United States. UPMC serves customers across the continuum of healthcare with its hospital, physician and homecare services, physical and behavioral insurance product offerings, international operations, as well as its Enterprises division.

We are committed to providing the communities our hospitals, outpatient centers and other health care facilities serve, as well as our insurance members, with high-quality, cost-effective health care while continuing to grow our business and execute on our mission of service. As the stewards of UPMC's community assets, we are guided by our core values of integrity, excellence, respect and teamwork. These values govern the manner in which we serve our communities and are embedded in the execution and delivery of Life Changing Medicine.

UPMC continues to make significant investments in equipment, technology, education and operational strategies designed to improve clinical quality at our hospitals and outpatient centers. Investments in our operations and continued capital improvements are expected to become increasingly important as the competitive environment of the market and changes to health care nationally continue to progress and change the landscape of patient care and reimbursement. We build new facilities, make strategic acquisitions and enter into joint venture arrangements or affiliations with health care businesses — in each case in communities where we believe our mission can be effectively utilized to improve the overall health of those communities.

By continually evolving and refining UPMC's world-class financial processes, we focus on achieving optimal financial results that support the continued development of our organization, as well as ongoing investment in the future of the communities we serve. We are committed to achieving these objectives with unyielding commitments to transparency in reporting and disclosure, enterprise-wide integration and ongoing process improvement.

The purpose of this section, Management's Discussion and Analysis ("MD&A"), is to provide a narrative explanation of our condensed consolidated financial statements that enhances our overall financial disclosures, to provide the context within which our financial information may be analyzed, and to provide information about the quality of, and potential variability of, our financial condition, results of operations and cash flows.

Unless otherwise indicated, all financial and statistical information included herein relates to our continuing operations, with dollar amounts expressed in millions (except for statistical information and as otherwise noted). MD&A should be read in conjunction with the accompanying unaudited condensed consolidated financial statements.

# INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## COVID-19

Coronavirus disease 19 ("COVID-19") is a respiratory disease caused by the new coronavirus (SARS-CoV-2) not previously seen in humans. In March 2020, the World Health Organization declared the outbreak a pandemic and the Trump Administration declared it a national emergency in the United States. Now considered one of the most rapidly emerging infectious diseases worldwide, this virus is spread through human contact, much like the cold or flu, and can cause fever, cough and shortness of breath that are mild in some individuals and life-threatening or fatal in others.

Although volumes have largely rebounded to near pre-COVID-19 levels, UPMC and its subsidiaries have and expect to continue to experience some effect to operations as a result of the COVID-19 pandemic.

On March 27, 2020, the federal government enacted the CARES Act that provides, among other funding sources, relief funds to hospitals and other health care providers on the front lines of the COVID-19 response. This funding is to be used to support health care related expenses or lost revenue attributable to COVID-19. Beginning in April 2020, over 90 individual UPMC facilities received an aggregate of approximately \$618 million of federal CARES Act funding as of March 31, 2021, of which approximately \$380 million was recognized as other operating revenue for the year ended December 31, 2020. For the three months ended March 31, 2021, an additional \$108 million was recognized as UPMC continued to experience significant COVID-19 expenses. The remaining government payments received will be recognized in operations as other operating revenue in future periods, subject to complying with certain terms and conditions and ongoing regulatory clarifications.

In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, the Centers for Medicare & Medicaid Services ("CMS") have expanded the current Accelerated and Advance Payment Program. Beginning in April 2020, CMS provided advance funding that aggregated to approximately \$840 million to 185 individually identified UPMC entities as of March 31, 2021. In October 2020, a bill was signed into law which changed the original Medicare loan repayment terms for health care providers allowing recoupment to begin one year after the Medicare Accelerated and Advance Payment Program loan was issued. Recoupment has begun as of April 2021 and the recovery period is estimated to be approximately 18 months. Additionally, the CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security/FICA taxes. As part of this deferral program, UPMC has deferred approximately \$225 million of FICA payments as of March 31, 2021. The total amount accrued is unchanged since December 31, 2020.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Three Months Ended March 31	2021	2020*
Operating revenues	\$ 6,019	\$ 5,504
Operating income	\$ 288	\$ 16
Operating margin %	4.8%	0.3%
Operating margin % (including income tax and interest expense)	4.1%	(0.4)%
Gain (loss) from investing and financing activities	\$ 326	\$ (799)
Excess of revenues over expenses (expenses over revenues)	\$ 574	\$ (653)
Operating EBIDA	\$ 459	\$ 187
Capital expenditures	\$ 186	\$ 225
Reinvestment ratio	1.09	1.32

Selected Other Information as of	March 31, 2021	December 31, 2020
Total cash and investments	\$ 10,519	\$ 9,873
Unrestricted cash and investments	\$ 9,055	\$ 8,440
Unrestricted cash and investments over long-term debt <sup>1</sup>	\$ 2,681	\$ 2,036
Days of cash on hand	147	142
Days in net accounts receivable	42	39
Average age of plant (in years)	9.5	9.2

\*Reclassifications were made to prior year to conform to current year presentation. See reclassifications disclosure in Footnote 4.

<sup>1</sup>Excludes \$840 million of Medicare advance funding and \$225 million of deferred FICA payments.

Operating income for the three months ended March 31, 2021 increased \$272 million compared to the same period in the prior year. Excess of revenues over expenses was \$574 million and operating earnings before interest, depreciation and amortization totaled \$459 million for the three months ended March 31, 2021. As of March 31, 2021, UPMC had \$10.5 billion of cash and investments, of which approximately \$3.0 billion is held by UPMC's regulated health and captive insurance companies.

For the three months ended March 31, 2021:

- Hospital medical-surgical admissions and observation cases decreased 4% compared to the prior year,
- Hospital outpatient revenue per workday increased 8% compared to the prior year,
- Physician service revenue per weekday increased 4% from the comparable period in the prior year and
- Enrollment in UPMC's Insurance Services grew to over 4.0 million members as of March 31, 2021.

UPMC's gain from investing and financing activities for the three months ended March 31, 2021 was \$326 million. UPMC continues to have a long-term perspective with regard to its investment activities.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## BUSINESS HIGHLIGHTS

In January 2021, southcentral Pennsylvanians with end-stage liver disease were provided a new option for liver transplant evaluation with the opening of the UPMC Liver Transplant Evaluation Clinic at UPMC Memorial in York, Pa. It offers a range of pre-liver transplant evaluation services, including blood tests, diagnostic tests, radiology and diagnostic imaging services, consults, exams, and ongoing education. Evaluations of potential donors and all surgeries are performed at UPMC Presbyterian in Pittsburgh. In addition to the new clinic at UPMC Memorial, UPMC also operates regional liver transplant evaluation clinics at UPMC Harrisburg, UPMC Hamot and UPMC Williamsport.

UPMC Hamot's newly constructed seven-story inpatient tower opened for patients in February 2021. The largest construction project in Hamot's history, the \$111 million investment allows for 64 new ICU beds and an expanded imaging department as well as three MRIs to meet the increasing demand for UPMC care in the Erie region. Meanwhile, construction is ongoing for the UPMC Vision and Rehabilitation Hospital on the UPMC Mercy campus in Uptown Pittsburgh. The current timeline anticipates completing construction by December 2022 and seeing the first patients in May 2023. The \$510 million, 445,000 square-foot clinical and research tower will be the new home of the UPMC Ophthalmology and Physical Medicine and Rehabilitation Departments. The project also includes a parking structure to accommodate 1,100 vehicles.

UPMC Enterprises in January 2021 incubated and launched Astrata, a digital health care quality company. Astrata uses advanced analytics and natural language processing ("NLP") to improve value-based care. Astrata and its team of data scientists developed cloud-based NLP technologies that allow health insurers to analyze unstructured clinical data more efficiently. This transformative solution generates real-time insights that more accurately assesses quality of care and population health against Healthcare Effectiveness Data and Information Set ("HEDIS") measures. Both government and private health care payers are increasingly aligning provider compensation to such measures. Astrata partnered with UPMC to develop and validate its technology. For many important HEDIS measures, health care organizations currently are able to determine their quality ratings only once at the end of the year through a manual process, but Astrata's technology enables year-round monitoring and quality improvement efforts at scale. Astrata plans to increase its workforce by 30% over the coming year with new opportunities on technical, sales and customer-facing teams.

In March 2021, UPMC Harrisburg opened a new dedicated antepartum unit, serving pregnant women at high-risk for early birth or complications who need to be hospitalized during their pregnancy. The unit is in close proximity to Labor & Delivery and OB-GYN operating rooms so that providers have quick access to needed services when it is time for birth. Eleven new spacious, private rooms with bathrooms accommodate overnight guests, as well as provide state-of-the-art technology and monitoring equipment for short- and long-term inpatient care. Multidisciplinary teams, including maternal-fetal medicine specialists, obstetricians and neonatologists, work together with nursing to provide seamless care for mothers and babies. In addition to maternity and newborn services, UPMC Harrisburg provides a complete spectrum of care for women, including gynecologic oncology, uro-gynecology, maternal fetal medicine, and reproductive endocrinology and infertility. The new antepartum unit opened only four months after the new UPMC Children's Harrisburg inpatient unit opened. That newly constructed \$12 million unit brings UPMC Children Hospital of Pittsburgh's nationally ranked specialty care to families in southcentral Pennsylvania. The 26-bed unit, includes 11 new, private rooms each designed for universal use, meaning children stay in one room throughout their hospital stay and the appropriate level of care is brought to them. The unit mirrors the design of UPMC Children Hospital of Pittsburgh, which has yielded higher-quality outcomes and high-ranking patient and family experiences, since it eliminates multiple patient transfers. The comprehensive care team at UPMC Children's Harrisburg is supported by specialists in Pittsburgh 24/7 through bedside telemedicine, offering real-time consultation to more than 400 specialty care providers. In addition, UPMC provides around-the-clock access to board-certified, pediatric emergency medicine physicians at UPMC Children's Hospital of Pittsburgh through video Emergency Department-to-Emergency Department consultations.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

Since Pinnacle hospitals were merged into the UPMC network in 2017, UPMC has invested \$910 million, representing UPMC's commitment to offering world-class care to the communities in southcentral Pennsylvania.

For the third year in a row, the Ethisphere Institute, an organization focused on defining and advancing the standards of ethical business practices, has named UPMC one of the World's Most Ethical Companies. UPMC is one of 135 organizations on Ethisphere's 2021 list, which spans 22 countries and 47 different industries. Ethisphere evaluated UPMC as an integrated health care delivery and financing system, and it is one of only two organizations recognized in that category. To quantitatively assess a company's performance in an objective and standardized manner, Ethisphere examined a wide range of factors including how applicants are adapting and responding to the COVID-19 pandemic, inclusion and social justice factors, environmental factors, social and governance factors, and safety/equity factors.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended March 31, 2021

(in millions)

	Health Services	Insurance Services	Eliminations	Consolidated
<b>Revenues:</b>				
Net patient service revenue	\$ 3,080	\$ -	\$ (650)	\$ 2,430
Insurance enrollment revenue	-	2,987	-	2,987
Other revenue	427	212	(37)	602
<b>Total operating revenues</b>	<b>\$ 3,507</b>	<b>\$ 3,199</b>	<b>\$ (687)</b>	<b>\$ 6,019</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 1,897	\$ 128	\$ (16)	\$ 2,009
Insurance claims expense	-	2,724	(650)	2,074
Supplies, purchased services and general	1,275	223	(21)	1,477
Depreciation and amortization	168	3	-	171
<b>Total operating expenses</b>	<b>3,340</b>	<b>3,078</b>	<b>(687)</b>	<b>5,731</b>
<b>Operating income</b>	<b>\$ 167</b>	<b>\$ 121</b>	<b>\$ -</b>	<b>\$ 288</b>
<b>Operating margin %</b>	<b>4.8%</b>	<b>3.8%</b>	<b>-</b>	<b>4.8%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>3.6%</b>	<b>3.7%</b>	<b>-</b>	<b>4.1%</b>
<b>Operating EBIDA</b>	<b>\$ 335</b>	<b>\$ 124</b>	<b>\$ -</b>	<b>\$ 459</b>
<b>Operating EBIDA %</b>	<b>9.5%</b>	<b>3.9%</b>	<b>-</b>	<b>7.6%</b>

Three Months Ended March 31, 2020\*

(in millions)

	Health Services	Insurance Services	Eliminations	Consolidated
<b>Revenues:</b>				
Net patient service revenue	\$ 2,838	\$ -	\$ (543)	\$ 2,295
Insurance enrollment revenue	-	2,790	-	2,790
Other revenue	277	196	(54)	419
<b>Total operating revenues</b>	<b>\$ 3,115</b>	<b>\$ 2,986</b>	<b>\$ (597)</b>	<b>\$ 5,504</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 1,763	\$ 124	\$ (7)	\$ 1,880
Insurance claims expense	-	2,546	(543)	2,003
Supplies, purchased services and general	1,208	273	(47)	1,434
Depreciation and amortization	167	4	-	171
<b>Total operating expenses</b>	<b>3,138</b>	<b>2,947</b>	<b>(597)</b>	<b>5,488</b>
<b>Operating (loss) income</b>	<b>\$ (23)</b>	<b>\$ 39</b>	<b>\$ -</b>	<b>\$ 16</b>
<b>Operating margin %</b>	<b>(0.7)%</b>	<b>1.3%</b>	<b>-</b>	<b>0.3%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>(1.9)%</b>	<b>1.1%</b>	<b>-</b>	<b>(0.4)%</b>
<b>Operating EBIDA</b>	<b>\$ 144</b>	<b>\$ 43</b>	<b>\$ -</b>	<b>\$ 187</b>
<b>Operating EBIDA %</b>	<b>4.6%</b>	<b>1.4%</b>	<b>-</b>	<b>3.4%</b>

\*Reclassifications were made to prior year to conform to current year presentation. See reclassifications disclosure in Footnote 4.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## Health Services

UPMC Health Services division ("Health Services") includes a comprehensive array of clinical capabilities consisting of hospitals, specialty service lines (e.g., transplantation services, woman care, behavioral health, pediatrics, cancer care and rehabilitation services), contract services (emergency medicine, pharmacy and laboratory) and 4,900 employed physicians with associated practices. Also included within Health Services are supporting foundations and UPMC's captive insurance programs. Hospital activity is monitored in four distinct groups: (i) academic hospitals that provide a comprehensive array of clinical services that include the specialty service lines listed above and serve as the primary academic and teaching centers for UPMC and are located in Pittsburgh; (ii) community hospitals that provide core clinical services mainly to the suburban Pittsburgh marketplace; (iii) regional hospitals that provide core clinical services to certain other areas of western (including Erie), central (including Williamsport and Harrisburg) Pennsylvania and surrounding areas; and (iv) pre- and post-acute care capabilities that include: UPMC HomeCare, a network of home health services, and UPMC Senior Communities, the facilities of which provide a complete network of senior living capabilities in greater Pittsburgh and the surrounding counties.

Health Services also includes international ventures which aim to bring new revenue streams into UPMC's domestic operations. International ventures currently include ISMETT, a transplant and specialty surgery hospital in Palermo, Italy, a hospital system located in Ireland, a contract to provide management services for five world-class hospitals in partnership with Wanda Group in China, remote second-opinion pathology consultations for patients in China, a national oncology treatment and research center in Kazakhstan, as well as the Advanced Radiosurgery Center of Excellence at San Pietro FBF Hospital in Rome.

Health Services operating income for the three months ended March 31, 2021 increased \$190 million versus the same period in the prior year. Volumes within Health Services entities have generally rebounded to pre-COVID-19 levels in 2021, while the prior year saw sharp volume declines in March 2020 as the initial impacts of the COVID-19 pandemic were felt, resulting in losses for the division.

## Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have four million members as of March 31, 2021. UPMC Health Plan is a health maintenance organization ("HMO") offering coverage for commercial and Medicare members. UPMC for You is also an HMO, which is engaged in providing coverage to Medical Assistance & Medicare Special Needs Plan beneficiaries. UPMC Health Network offers preferred provider organization ("PPO") plan designs to serve Medicare beneficiaries. UPMC Health Options offers PPO plan designs to serve commercial beneficiaries. UPMC for Life is a Medicare product line offered by various companies within the Insurance Services division. UPMC Work Partners provides fully insured workers' compensation, and integrated workers' compensation and disability services to employers. Community Care Behavioral Health Organization ("Community Care") is a state-licensed HMO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in Pennsylvania. Community HealthChoices ("CHC") is Pennsylvania's managed care program for individuals who are dual eligible for Medicaid and Medicare or qualify for Medicaid Long Term Services and Supports ("LTSS") and is designed to increase opportunities for older Pennsylvanians and individuals with physical disabilities to remain in their homes and communities rather than in facilities.

Insurance Services operating income for the three months ended March 31, 2021 increased by \$82 million versus the same period in the prior year largely due to increased enrollment, lower administrative costs and continued management of health care service utilization.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## UPMC Enterprises

As an organization dedicated to outstanding patient care, UPMC has defined a bold mission: to shape the future of health care through innovation. UPMC Enterprises helps bring this mission to life by transforming ideas into thriving businesses and Life Changing Medicine. UPMC Enterprises leverages UPMC's integrated delivery and financing system capabilities to generate new revenue streams by collaborating across UPMC, the University of Pittsburgh, and Carnegie Mellon University, as well as health care entrepreneurs, companies and investors across the globe in all stages of commercial development, to bring to market new health care companies, technologies, and solutions. These ventures support both UPMC's core mission and help stimulate the economy of western Pennsylvania.

UPMC Enterprises manages a portfolio that includes various research and product development initiatives and numerous operating companies with commercially available products and services directed toward the improvement of the delivery of health care. Unlike the Health Services and Insurance Services divisions, UPMC Enterprises' results are classified as investing and financing activity in the condensed consolidated statements of operations and changes in net assets, consistent with the long-term nature of developing and commercializing life sciences and technology-enabled initiatives.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

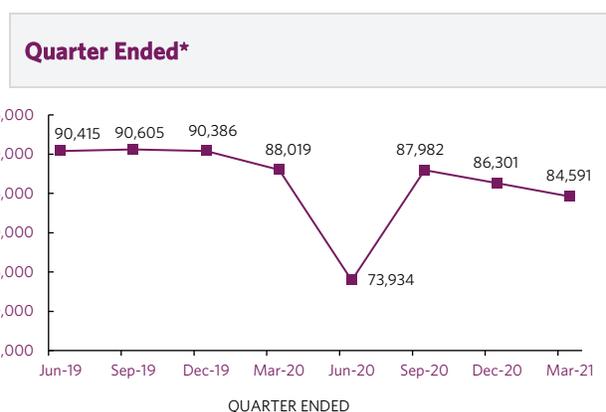
PERIOD ENDED MARCH 31, 2021

## REVENUE METRICS – HEALTH SERVICES

### Medical-Surgical Admissions and Observation Visits

Inpatient activity as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the three months ended March 31, 2021 decreased 4% compared to the same period in 2020. This was driven by volume decreases as a residual result of the COVID-19 pandemic over the first three months of 2021, compared to the initial impact occurring only in the final two weeks of the same period in the prior year.

For the Three Months Ended March 31			
(in thousands)	2021	2020*	Change
<b>Academic</b>	27.7	29.6	(6)%
<b>Community</b>	12.9	13.5	(4)%
<b>Regional</b>	44.0	44.9	(2)%
<b>Total</b>	84.6	88.0	(4)%



\*Prior year amounts have been adjusted to conform to current year presentation.

### Outpatient Revenue per Workday

UPMC's outpatient activity for the three months ended March 31, 2021 as measured by average revenue per workday increased 8% compared to the same period in 2020. Increases in revenue per workday from prior periods continue as ambulatory patient volumes continue to increase. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Three Months Ended March 31			
(in thousands)	2021	2020*	Change
<b>Academic</b>	\$ 6,220	\$ 5,917	5%
<b>Community</b>	1,755	1,602	10%
<b>Regional</b>	8,320	7,558	10%
<b>Total</b>	\$ 16,295	\$ 15,077	8%



\*Prior year amounts have been adjusted to conform to current year presentation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## REVENUE METRICS – HEALTH SERVICES (CONTINUED)

### Physician Service Revenue per Weekday

UPMC's physician activity for the three months ended March 31, 2021 as measured by average revenue per weekday increased 4% from the comparable period in 2020. Increases in revenue per weekday for the current year are driven by volume rebounds since the beginning of the COVID-19 pandemic. Physician services activity is measured on a weekday basis.

For the Three Months Ended March 31			
(in thousands)	2021	2020*	Change
<b>Academic</b>	\$ 3,529	\$ 3,433	3%
<b>Community</b>	1,633	1,649	(1)%
<b>Regional</b>	2,415	2,168	11%
<b>Total</b>	\$ 7,577	\$ 7,250	4%

Quarterly Average (in millions)\*



\*Prior year amounts have been adjusted to conform to current year presentation.

### Sources of Patient Service Revenue

The gross patient service revenues, before explicit and implicit price concessions, of UPMC are derived from payers which reimburse or pay UPMC for the services it provides to patients covered by such payers. The following table is a summary of the percentage of the subsidiary hospitals' gross patient service revenue by payer.

	Three Months Ended March 31	
	2021	2020
<b>Medicare</b>	47%	46%
<b>Medical Assistance</b>	17%	17%
<b>UPMC Insurance Services Commercial</b>	13%	14%
<b>Highmark Commercial</b>	9%	8%
<b>National Insurers Commercial</b>	6%	7%
<b>Self-pay/Other</b>	8%	8%
<b>Total</b>	100%	100%

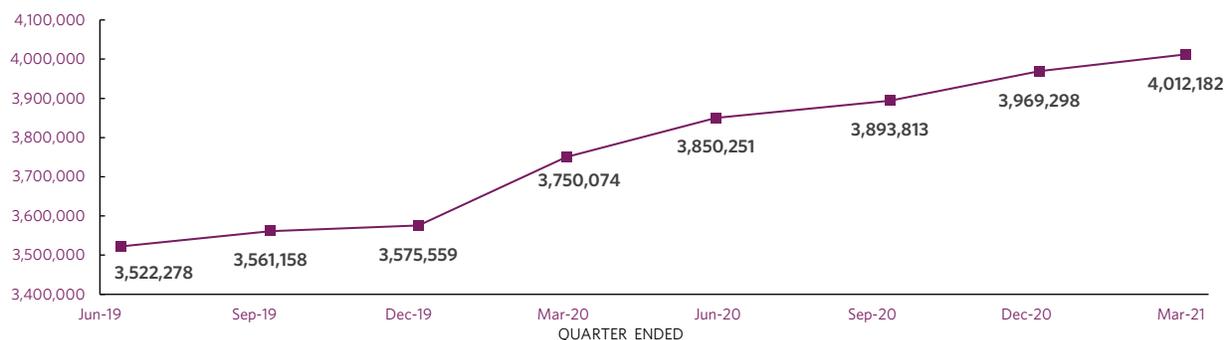
# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## OPERATING METRICS - INSURANCE SERVICES

### Membership

Membership in the UPMC Insurance Services division increased to 4,012,182 as of March 31, 2021, a 7% increase versus March 31, 2020.



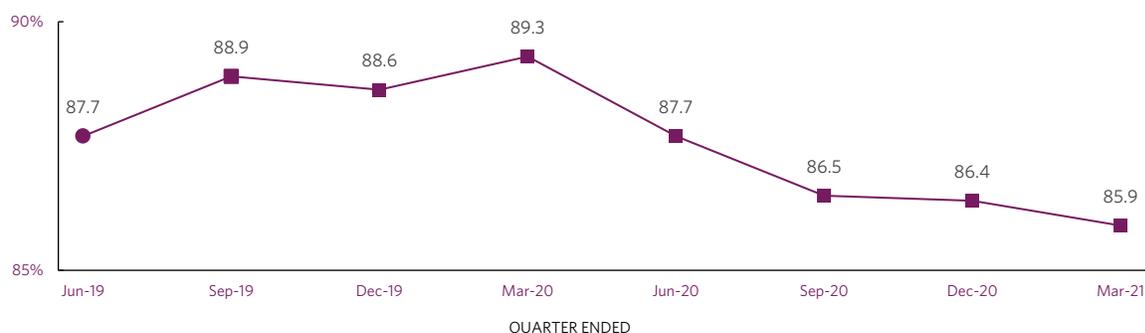
As of	March 31, 2021	March 31, 2020*
Commercial Health	671,434	709,063
Medicare	198,324	191,235
Medical Assistance	539,244	463,537
<b>Sub-Total Physical Health Products</b>	<b>1,409,002</b>	<b>1,363,835</b>
Community HealthChoices	130,342	123,536
Behavioral Health	1,187,912	1,019,364
<b>Sub-Total Health Products</b>	<b>2,727,256</b>	<b>2,506,735</b>
Work Partners and Life Solutions	733,594	692,846
Ancillary Products	482,940	483,373
Third-Party Administration	68,392	67,120
<b>Total Membership</b>	<b>4,012,182</b>	<b>3,750,074</b>

\*Reclassifications were made to prior year to conform to current year presentation.

### Health Care Spending Ratio

UPMC Insurance Services health care spending ratio for the trailing twelve months has decreased to 85.9% as of March 31, 2021 as a result of decreases in claims expenses as a result of the COVID-19 pandemic.

#### Trailing Twelve Months



# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## KEY FINANCIAL INDICATORS

(Dollars in millions)

### Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the three months ended March 31, 2021 increased 145% as compared to the three months ended March 31, 2020.

For the Three Months Ended March 31			
(in thousands)	2021	2020*	Change
<b>Operating Income</b>	\$ 288	\$ 16	1,700%
<b>Depreciation and Amortization</b>	171	171	0%
<b>Operating EBIDA</b>	\$ 459	\$ 187	145%

\*Reclassifications were made to prior periods to conform to current year presentation. See reclassifications disclosure in Footnote 4.

### Trailing Twelve Months Operating EBIDA



### Unrestricted Cash and Investments Over Long Term Debt

Unrestricted cash and investments over long term debt as of March 31, 2021 increased by \$645 million as compared to December 31, 2020 due primarily to strong operating performance and positive investment returns in the first quarter of 2021. Advance funding from CMS of \$840 million and deferred FICA payments of \$225 million are excluded from this calculation.



### Days in Net Accounts Receivable

Consolidated Days in Accounts Receivable continue to be lower than industry averages due to UPMC's rigorous procedures in this area.

By Receivable	March 2021 Balance	Days	
		Mar 31, 2021	Dec 31, 2020
<b>Patient AR</b>	\$ 1,218	47	47
<b>Other AR</b>	1,547	39	35
<b>Consolidated</b>	\$ 2,765	42	39



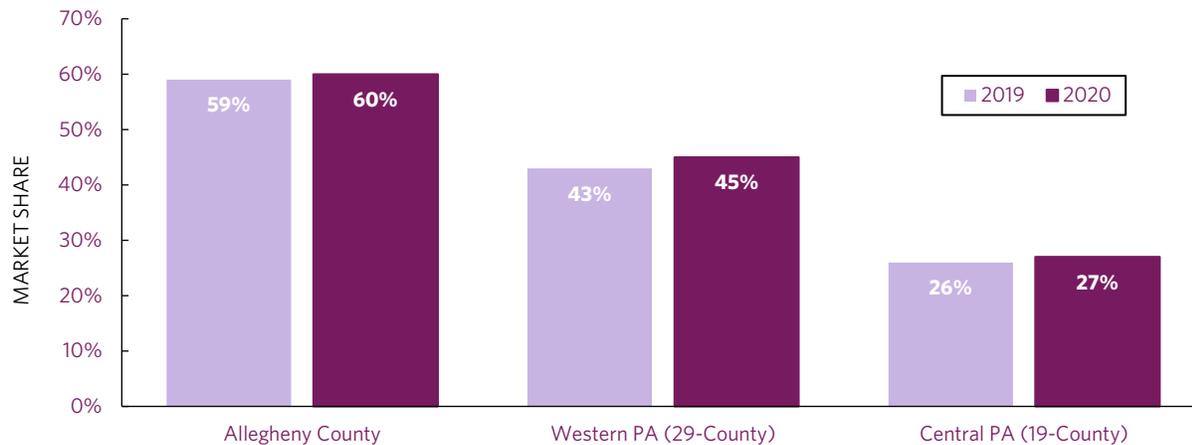
# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## MARKET SHARE

The chart below shows the change in UPMC's estimated inpatient market share for the first three quarters of calendar years 2019 and 2020 by service area.<sup>(1)</sup> This is the most recent market share data currently available.

### UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE AS OF SEPTEMBER 30<sup>(2)</sup>



<sup>(1)</sup> UPMC's three service areas are (1) Allegheny County, (2) a 29-county region which also includes Armstrong, Beaver, Bedford, Blair, Butler, Cambria, Cameron, Centre, Clarion, Clearfield, Crawford, Elk, Erie, Fayette, Forest, Greene, Huntingdon, Indiana, Jefferson, Lawrence, McKean, Mercer, Potter, Somerset, Venango, Warren, Washington and Westmoreland counties, and (3) a 19-county region including Adams, Clinton, Columbia, Cumberland, Dauphin, Franklin, Fulton, Juniata, Lancaster, Lebanon, Lycoming, Mifflin, Montour, Northumberland, Perry, Snyder, Tioga, Union and York counties.

<sup>(2)</sup> Excludes psychiatry and substance abuse discharges.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

## ASSET AND LIABILITY MANAGEMENT

During the three months ended March 31, 2021, UPMC's investment portfolio returned 3.0%. As of March 31, 2021, UPMC utilized 155 ongoing external investment managers including 44 traditional managers, 15 hedge fund managers and 96 private capital managers. UPMC is also invested with an additional 34 legacy private capital and hedge fund managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of 32.9%, 8.2% and 9.1% for the trailing one-, three- and five-year periods. As of March 31, 2021, 72% of UPMC's investment portfolio could be liquidated within three days.

UPMC's annualized cost of capital during the three-month period ended March 31, 2021 was 3.08%. This cost of capital includes the accrual of interest payments, the amortization of financing costs and original issue discount or premium, the ongoing costs of variable rate debt and the cash flow impact of derivative contracts. As of March 31, 2021, the interest rates on UPMC's long-term debt were approximately 80% fixed and 20% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 1.67%. The annualized interest cost for the fixed rate debt was 3.36%. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of \$600 million. As of March 31, 2021, UPMC had approximately \$85 million letters of credit outstanding under the credit facility leaving \$515 million available to fund operating and capital needs, none of which was drawn.

UPMC has credit facilities of \$19 million (a decrease from \$150 million to \$19 million from August 15 to May 14) and \$50 million with expiration dates in April 2022. Both credit facilities support the Insurance Services Division. As of March 31, 2021, there were no draws on either credit facility.

Subsequent to March 31, 2021, UPMC issued \$222 million of Series 2021A revenue bonds and \$47 million of Series 2021B revenue bonds, and also issued the \$400 million Series 2021C taxable note. Details of the offerings can be found in the applicable official statements for each issue. UPMC also closed on two additional \$200 million lines of credit for certain insurance services companies.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2021

The table below compares reported Investing and Financing Activity for the three months ended March 31, 2021 and 2020 by type.

## Investing and Financing Activity by Type

Three Months Ended March 31	2021	2020
<i>(in thousands)</i>		
Realized gain (loss)	\$ 140,408	\$ (76,860)
Interest and dividends, net of fees	14,679	20,005
Realized investment gain (loss)	\$ 155,087	\$ (56,855)
Unrealized gain (loss) on derivative contracts	936	(2,320)
Other unrealized gain (loss)	227,918	(662,414)
Investment gain (loss)	\$ 383,941	\$ (721,589)
Interest expense	(41,466)	(38,016)
UPMC Enterprises activity	(16,259)	(39,041)
<b>Gain (loss) from investing and financing activities</b>	<b>\$ 326,216</b>	<b>\$ (798,646)</b>

## Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of March 31, 2021, UPMC had approximately \$1.2 billion of cash and cash equivalents on hand and borrowing availability under the primary credit facility was \$515 million.

Operating EBIDA was \$459 million for the three months ended March 31, 2021, compared to \$187 million for the three months ended March 31, 2020. Key uses of cash for the three months ended March 31, 2021 include capital expenditures of \$186 million. Major capital projects included construction and improvements at UPMC Pinnacle, UPMC Susquehanna and UPMC Mercy as well as ongoing expansion and improvement across the entirety of UPMC. Major information services projects included enhancements that are advancing UPMC's leading clinician centric computing environment, technology infrastructure that supports UPMC's diversified digital environment, investments in enterprise data analytics and other technologies that are transforming the consumer experience across the spectrum of health care.

# UTILIZATION STATISTICS

PERIOD ENDED MARCH 31, 2021

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, rehabilitation and skilled nursing patient activity for the three months ended March 31, 2021 and 2020.

	Three Months Ended March 31	
	2021	2020*
Licensed Beds	8,737	8,662
<b>BEDS IN SERVICE</b>		
Medical-Surgical	5,078	4,991
Psychiatric	430	426
Rehabilitation	256	247
Skilled Nursing	1,557	1,563
Total Beds in Service	7,321	7,227
<b>PATIENT DAYS</b>		
Medical-Surgical	348,395	325,542
Psychiatric	29,579	31,578
Rehabilitation	19,553	18,560
Skilled Nursing	95,615	118,115
Total Patient Days	493,142	493,795
Average Daily Census	5,479	5,426
Observation Days	37,686	43,749
Obs Average Daily Census	419	481
<b>ADMISSIONS AND OBSERVATION CASES</b>		
Medical-Surgical	61,649	62,497
Observation Cases	22,942	25,522
Subtotal	84,591	88,019
Psychiatric	2,724	2,775
Rehabilitation	1,162	1,193
Skilled Nursing	996	1,114
Total Admissions and Observation Cases	89,473	93,101
Overall Occupancy	81%	82%
<b>AVERAGE LENGTH OF STAY</b>		
Medical-Surgical	5.7	5.2
Psychiatric	10.9	11.4
Rehabilitation	16.8	15.6
Skilled Nursing	96.0	106.0
Overall Average Length of Stay	7.4	7.3
Emergency Room Visits	225,375	269,883
<b>TRANSPLANTS (DOMESTIC)</b>		
Liver	47	57
Kidney	65	86
All Other	77	66
Total	189	209
<b>OTHER POST-ACUTE METRICS</b>		
Home Health Visits	183,459	200,551
Hospice Care Days	59,846	61,310
Outpatient Rehab Visits (CRS)	170,159	162,156

\*Reclassifications were made to prior year to conform to current year presentation.

## OUTSTANDING DEBT

PERIOD ENDED MARCH 31, 2021

(DOLLARS IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$43,587
	UPMC	2007A	45,944
	UPMC	2011A	68,437
	UPMC	2017D	399,718
	UPMC	2019A	803,624
Monroeville Finance Authority	UPMC	2012	293,436
	UPMC	2013B	52,530
	UPMC	2014B	45,185
Pennsylvania Economic Development Financing Authority	UPMC	2013A	109,727
	UPMC	2014A	273,925
	UPMC	2015B	116,587
	UPMC	2016	232,110
	UPMC	2017A	433,311
	UPMC	2017B	93,032
	UPMC	2017C	134,612
	UPMC	2020A	277,874
Erie County Hospital Authority	Hamot Health Foundation	2010A	6,972
Lycoming County Authority	The Williamsport Hospital	2011	10,972
Tioga County Industrial Development Authority	Laurel Health System	2010	6,449
	Laurel Health System	2011	4,794
Dauphin County General Authority	Pinnacle Health System	2012A	136,215
	Pinnacle Health System	2016A	100,299
	Pinnacle Health System	2016B	85,170
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	6,834
	Hanover Hospital	2015	22,575
Potter County Hospital Authority	UPMC	2018A	17,889
Somerset County Hospital Authority	Somerset Hospital	2009	912
	Somerset Hospital	2015A	16,000
Maryland Health and Higher Educational Facilities Authority	UPMC	2020B	204,982
None	UPMC	2011B	99,910
	UPMC	2018B	94
	UPMC	2020D	749,064
	UPMC	2020 Term Loans	499,883
	Susquehanna Health Innovation Center	New Market Tax Credit	17,505
	Somerset Management Services	2013	1,584
	Various	Financing Leases & Loans	144,566
		Swap Liabilities	5,574
<b>Total</b>			<b>\$5,561,882</b>

Includes original issue discount and premium, deferred financing costs and other.

Source: UPMC Records

# DEBT COVENANT CALCULATIONS

PERIOD ENDED MARCH 31, 2021

## DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

	Trailing Twelve-Month Period Ended March 31, 2021	
Excess of revenues over expenses	\$	2,299,953
<b>ADJUSTED BY:</b>		
Net Unrealized Gains during Period <sup>(1)</sup>		(1,100,124)
Depreciation and Amortization <sup>(1)</sup>		685,649
Gain on Defeasance of Debt <sup>(1)</sup>		(1,274)
Inherent Contribution <sup>(1)</sup>		11,500
Realized Investment Impairments <sup>(2)</sup>		(3,633)
Interest Expense <sup>(3)</sup>		172,411
Revenues Available for Debt Service		\$2,064,482
Historical Debt Service Requirements - 2007 MTI	\$	335,713
Debt Service Coverage Ratio - 2007 MTI		6.15X
Historical Debt Service Requirements - All Debt and Finance Leases	\$	369,648
Debt Service Coverage Ratio - All Debt and Finance Leases		5.58X

## LIQUIDITY RATIO AS OF MARCH 31, 2021

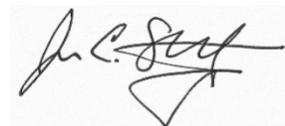
Unrestricted Cash and Investments	\$	9,054,888
Master Trust Indenture Debt		5,165,516
<b>Unrestricted Cash to MTI Debt</b>		<b>1.75</b>

<sup>(1)</sup> Non-Cash.

<sup>(2)</sup> Reflects ultimate realization of previously impaired cost-based investments.

<sup>(3)</sup> Includes only interest on long-term debt.

I hereby certify to the best of my knowledge that, as of March 31, 2021, UPMC is in compliance with the applicable covenants contained in the financing documents for the bonds listed on the cover hereof and all applicable bank lines of credit and no Event of Default (as defined in any related financing document) has occurred and is continuing.



J.C. Stille  
Treasurer  
UPMC

# Unaudited Interim Condensed Consolidated Financial Statements

FOR THE PERIOD ENDED MARCH 31, 2021

# REVIEW REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
UPMC  
Pittsburgh, Pennsylvania

We have reviewed the condensed consolidated financial information of UPMC, which comprise the condensed consolidated balance sheet as of March 31, 2021, and the related condensed consolidated statements of operations and changes in net assets and cash flows for the three-month periods ended March 31, 2021 and 2020.

## Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the condensed financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

## Auditor's Responsibility

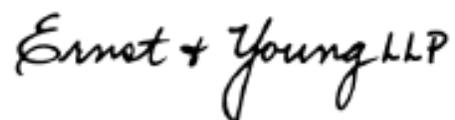
Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

## Conclusion

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

## Report on Condensed Consolidated Balance Sheet as of December 31, 2020

We have previously audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of UPMC as of December 31, 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended (not presented herein); and we expressed an unqualified audit opinion on those audited consolidated financial statements in our report dated March 1, 2021. In our opinion, the accompanying condensed consolidated balance sheet of UPMC as of December 31, 2020, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Pittsburgh, Pennsylvania  
May 27, 2021

# CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(DOLLARS IN THOUSANDS)

	As of	
	March 31, 2021	December 31, 2020
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,151,210	\$ 1,541,036
Patient accounts receivable	1,218,026	1,210,992
Other receivables	1,547,278	1,412,735
Securities lending collateral	329,795	80,527
Other current assets	447,871	430,038
<b>Total current assets</b>	<b>4,694,180</b>	<b>4,675,328</b>
Board-designated, restricted, trustee and other investments	9,367,307	8,332,120
Beneficial interests in foundations and trusts	706,527	678,806
Net property, buildings and equipment	6,150,442	6,110,771
Operating lease right-of-use assets	1,017,206	1,033,598
Other assets	748,328	755,022
<b>Total assets</b>	<b>\$ 22,683,990</b>	<b>\$ 21,585,645</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 744,870	\$ 763,798
Accrued salaries and related benefits	1,051,770	866,890
Current portion of insurance reserves	929,207	950,387
Payable under securities lending agreement	329,795	80,527
Current portion of long-term obligations	334,849	333,864
Other current liabilities	1,442,989	1,200,890
<b>Total current liabilities</b>	<b>4,833,480</b>	<b>4,196,356</b>
Long-term obligations	5,227,033	5,258,046
Pension liability	192,924	171,983
Long-term insurance reserves	399,171	389,290
Operating lease noncurrent liabilities	950,301	963,812
Other noncurrent liabilities	1,050,746	1,184,968
<b>Total liabilities</b>	<b>12,653,655</b>	<b>12,164,455</b>
Net assets without donor restrictions	8,739,354	8,166,762
Net assets with donor restrictions	1,290,981	1,254,428
<b>Total net assets</b>	<b>10,030,335</b>	<b>9,421,190</b>
<b>Total liabilities and net assets</b>	<b>\$ 22,683,990</b>	<b>\$ 21,585,645</b>

See accompanying notes

# CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (UNAUDITED)

(DOLLARS IN THOUSANDS)

	Three Months Ended March 31	
	2021	2020
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Net patient service revenue	\$ 2,430,099	\$ 2,294,759
Insurance enrollment revenue	2,987,390	2,789,897
Other revenue	602,008	418,988
Total operating revenues	6,019,497	5,503,644
Salaries, professional fees and employee benefits	2,009,363	1,879,807
Insurance claims expense	2,073,695	2,003,104
Supplies, purchased services and general	1,477,444	1,434,026
Depreciation and amortization	171,142	171,078
Total operating expenses	5,731,644	5,488,015
Operating income	287,853	15,629
Academic and research support provided	(57,575)	(56,852)
Inherent contribution	-	170,442
Other non-operating gains	18,801	17,847
Income tax expense	(1,778)	(1,460)
After-tax income	\$ 247,301	\$ 145,606
Investing and financing activities:		
Investment gain (loss)	383,941	(721,589)
Interest expense	(41,466)	(38,016)
UPMC Enterprises activity:		
Portfolio company revenue and net gains from sales	31,566	8,250
Portfolio company and research and development expense	(47,825)	(47,291)
Gain (loss) from investing and financing activities	326,216	(798,646)
Excess of revenues over expenses (expenses over revenues)	573,517	(653,040)
Other changes in net assets without donor restrictions	(925)	(37,631)
Change in net assets without donor restrictions	572,592	(690,671)
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Net contributions and other changes	3,274	15,924
Net realized and unrealized gains (losses) on restricted investments	8,907	(6,559)
Assets released from restriction for operations and capital purchases	(3,349)	(2,462)
Change in beneficial interests in foundations and trusts	27,721	(92,747)
Change in net assets with donor restrictions	36,553	(85,844)
Change in total net assets	609,145	(776,515)
Net assets, beginning of period	9,421,190	8,308,109
Net assets, end of period	\$ 10,030,335	\$ 7,531,594

See accompanying notes

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

	Three Months Ended March 31	
	2021	2020
<b>OPERATING ACTIVITIES</b>		
Change in total net assets	\$ 609,145	\$ (776,515)
Adjustments to reconcile change in total net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	171,142	171,078
Change in beneficial interest in foundations and trusts	(27,721)	92,747
Restricted contributions and investment revenue	(12,181)	(10,153)
Restricted net assets acquired	-	(788)
Unrealized (gains) losses on investments	(227,918)	662,414
Realized (gains) losses on investments	(155,087)	56,855
Net changes in non-alternative investments	(601,569)	435,068
Inherent contribution	-	(170,442)
Changes in operating assets and liabilities:		
Accounts receivable	(141,577)	(54,042)
Other current assets	(267,101)	(148,077)
Accounts payable and accrued liabilities	165,952	60,826
Insurance reserves	(11,299)	62,953
Other current liabilities	491,366	227,593
Other noncurrent assets and liabilities	(126,791)	(58,953)
Other operating changes	(31,717)	35,407
Net cash (used in) provided by operating activities	(165,356)	585,971
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment (net of disposals)	(170,180)	(218,417)
UPMC Enterprises non-controlling investments	(16,700)	(9,000)
Cash acquired through affiliations and divestitures	-	43,011
Net change in investments designated as nontrading	(6,360)	3,281
Net change in alternative investments	(31,604)	(23,573)
Net change in other assets	28,581	20,160
Net cash used in investing activities	(196,263)	(184,538)
<b>FINANCING ACTIVITIES</b>		
Repayments of long-term obligations	(79,035)	(243,410)
Borrowings of long-term obligations	38,647	1,212,899
Restricted contributions and investment income	12,181	10,153
Net cash (used in) provided by financing activities	(28,207)	979,642
Net change in cash and cash equivalents	(389,826)	1,381,075
Cash and cash equivalents, beginning of period	1,541,036	351,216
Cash and cash equivalents, end of period	\$ 1,151,210	\$ 1,732,291
<b>SUPPLEMENTAL INFORMATION</b>		
Finance lease obligations incurred to acquire assets	\$ 15,324	\$ 6,127
<i>See accompanying notes</i>		

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 1. BASIS OF PRESENTATION

UPMC is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code (the "Code") as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pennsylvania, UPMC is one of the world's leading integrated delivery and financing systems. UPMC comprises nonprofit and for-profit entities offering medical and health care-related services, including health insurance products. Closely affiliated with the University of Pittsburgh ("University") and with shared academic and research objectives, UPMC partners with the University's Schools of the Health Sciences to deliver outstanding patient care, train tomorrow's health care specialists and biomedical scientists, and conduct groundbreaking research on the causes and course of disease.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. The accompanying unaudited interim condensed consolidated financial statements include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. For further information, refer to the audited consolidated financial statements and notes thereto as of and for the twelve-month period ended December 31, 2020.

## 2. COVID-19

Although volumes have largely rebounded to near pre-COVID-19 levels, UPMC and its subsidiaries have and expect to continue to experience an effect in operations as a result of the COVID-19 pandemic.

On March 27, 2020, the federal government enacted the CARES Act that provides, among other funding sources, relief funds to hospitals and other health care providers on the front lines of the COVID-19 response. This funding is to be used to support health care related expenses or lost revenue attributable to COVID-19. Beginning in April 2020, over 90 individual UPMC facilities received an aggregate of approximately \$618,000 of federal CARES Act funding as of March 31, 2021, of which approximately \$380,000 was recognized as other operating revenue for the year ended December 31, 2020. For the three months ended March 31, 2021, an additional \$108,000 was recognized as UPMC continued to experience significant COVID-19 expenses. The remaining government payments received will be recognized in operations as other operating revenue in future periods, subject to complying with certain terms and conditions and ongoing regulatory clarifications.

In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, the Centers for Medicare & Medicaid Services ("CMS") have expanded the current Accelerated and Advance Payment Program. Beginning in April 2020, CMS provided advance funding that aggregated to a total of approximately \$840,000 to 185 individually identified UPMC entities as of March 31, 2021. In October 2020, a bill was signed into law which changed the original Medicare loan repayment terms for health care providers allowing recoupment to begin one year after the Medicare Accelerated and Advance Payment Program loan was issued. Recoupment has begun as of April 2021 and the recovery period is estimated to be approximately 18 months. Additionally, the CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security/FICA taxes. As part of this deferral program, UPMC has deferred approximately \$225,000 of FICA payments, half of which is recorded in other current liabilities with the remainder in other noncurrent liabilities, as of March 31, 2021. The total amount accrued is unchanged since December 31, 2020.

## 3. NEW ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncements were released or adopted that will have an effect on UPMC's condensed consolidated financial statements.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 4. RECLASSIFICATIONS

In order to increase transparency within UPMC's consolidated financial statements, expenditures related to academic and research support provided to the University have been reclassified to a separate line item in the consolidated statements of operations and changes in net assets. To conform to this presentation for the three months ended March 31, 2021, a reclassification of \$56,852 was made that reduced supplies, purchased services and general expense and increased academic and research support provided for the three months ended March 31, 2020. As a result of this reclass, there was no impact to excess of expenses over revenues or net assets without donor restrictions.

## 5. REVENUE

### Net Patient Service Revenue

UPMC's net patient service revenue is recorded based upon the estimated amounts UPMC expects to be entitled to receive from patients, third-party payers (including health insurers and government programs) and others and includes an estimate of variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, UPMC bills the patients and third-party payers several days after the services are performed and/or the patient is discharged from the facility. Estimates of the explicit price concessions under managed care, commercial and governmental insurance plans are based upon the payment terms specified in the related contractual agreements or as mandated under government payer programs. UPMC continually reviews the explicit price concession estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care and commercial contractual terms resulting from contract negotiations and renewals. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by UPMC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. UPMC believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to inpatient services. UPMC measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and UPMC does not believe it is required to provide additional goods or services to the patient.

The majority of UPMC's services are rendered to patients with third-party coverage. Reimbursement under these programs for all payers is based on a combination of prospectively determined rates, discounted charges and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents and the contracts UPMC has with commercial payers also provide for retroactive audit and review of claims. Agreements with third-party payers typically provide for payments at amounts less than established charges. Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. UPMC also provides services to uninsured patients. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). UPMC also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record these revenues at the estimated amounts UPMC expects to collect. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods if final settlements differ from estimates. Adjustments arising from a change to previously estimated transaction prices were not significant in the three months ended March 31, 2021 or 2020.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Consistent with UPMC's mission, care is provided to patients regardless of their ability to pay. UPMC has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts UPMC expects to collect based on its collection history with those patients. Patients who meet UPMC's criteria for charity care are provided care without charge or at amounts less than established rates and UPMC has determined it has provided an implicit price concession. Price concessions, including charity care, are deducted from net patient service revenue.

The collection of outstanding receivables from Medicare, Medicaid, managed care payers, other third-party payers and patients is UPMC's primary source of cash and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the age of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed. The estimates for implicit price concessions are based upon UPMC's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators.

The composition of net patient service revenue for the three months ended March 31, 2021 and 2020, primarily resulting from patients in the western Pennsylvania region, is as follows:

Periods Ended March 31	Three Months Ended	
	2021	2020
Commercial	39%	37%
Medicare	38%	39%
Medical Assistance	15%	16%
Self-pay/other	8%	8%
	100%	100%

Laws and regulations governing the Medicare and Medical Assistance programs are complex and subject to interpretation. UPMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations is subject to government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change.

## Insurance Enrollment Revenue

UPMC's insurance subsidiaries (collectively, the "Health Plans") provide health care services on a prepaid basis under various contracts. Insurance enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services, which represents the performance obligation. Health care premium payments received from UPMC's members in advance of the service period are recorded as unearned revenues.

Insurance enrollment revenues include premiums that are collected from companies, individuals and government entities. Laws and regulations governing the Medicare and Medical Assistance programs are complex and subject to interpretation. UPMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the programs. As a result, there is at least a reasonable possibility that recorded estimates may change.

## Other Revenue

UPMC's other revenue consists of various contracts related to its Health Services and Insurance Services divisions. These contracts vary in duration and in performance obligations. In evaluating these contracts for compliance with ASC 606, *Revenue from Contracts with Customers*, there were no changes to the nature, timing or extent of revenues previously recognized or how revenues are recognized prospectively. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collectability is probable. Revenue recognized related to the CARES Act funding is captured in other revenue over the period of losses related to the COVID-19 pandemic.

## 6. FAIR VALUE MEASUREMENTS

As of March 31, 2021, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents and certain board-designated, restricted, trustee, and other investments and derivative instruments. Certain alternative investments are measured using the equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, includes:

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables represent UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2021 and December 31, 2020. The interest rate swaps are valued using internal models, which are primarily based on market observable inputs including interest rate curves. When quoted market prices are unobservable for fixed income securities, quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates, where applicable, are used for valuation purposes. These investments are included in Level 2 and include corporate fixed income, government bonds, and mortgage and asset-backed securities.

Other investments measured at fair value represent funds included on the condensed consolidated balance sheets that are reported using net asset value ("NAV"). These amounts are not required to be categorized in the fair value hierarchy. The fair value of these investments is based on the net asset value information provided by the general partner. Fair value is based on the proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally one quarter prior to the balance sheet date. Certain of UPMC's alternative investments are utilizing NAV to calculate fair value and are included in other investments in the following tables.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## FAIR VALUE MEASUREMENTS AS OF MARCH 31, 2021

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
<b>ASSETS</b>					
Fixed income	\$ 784,079	\$ 3,389,139	\$ -	\$ -	\$ 4,173,218
Domestic equity	1,130,925	19,864	-	-	1,150,789
International equity	780,896	837	-	-	781,733
Public real estate	87,384	-	-	-	87,384
Long/short equity	32,252	11,154	-	-	43,406
Absolute equity	16,612	-	-	-	16,612
Commodities	5,920	-	-	-	5,920
Derivative instruments	-	493	-	-	493
Securities on loan	422,862	-	-	-	422,862
Securities lending collateral	329,795	-	-	-	329,795
Alternative and other investments at NAV	-	-	-	1,751,454	1,751,454
Total assets measured at fair value on a recurring basis	\$ 3,590,725	\$ 3,421,487	\$ -	\$ 1,751,454	\$ 8,763,666
<b>LIABILITIES</b>					
Payable under securities lending agreement	\$ (329,795)	\$ -	\$ -	\$ -	\$ (329,795)
Derivative instruments	-	(5,574)	-	-	(5,574)
Total liabilities measured at fair value on a recurring basis	\$ (329,795)	\$ (5,574)	\$ -	\$ -	\$ (335,369)

## FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2020

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
<b>ASSETS</b>					
Fixed income	\$ 655,043	\$ 3,166,311	\$ -	\$ -	\$ 3,821,354
Domestic equity	1,059,489	15,061	-	-	1,074,550
International equity	708,306	719	-	-	709,025
Public real estate	70,857	-	-	-	70,857
Long/short equity	31,188	10,423	-	-	41,611
Absolute equity	16,093	-	-	-	16,093
Commodities	6,601	-	-	-	6,601
Derivative instruments	-	544	-	-	544
Securities on loan	251,339	-	-	-	251,339
Securities lending collateral	80,527	-	-	-	80,527
Alternative and other investments at NAV	-	-	-	1,483,455	1,483,455
Total assets measured at fair value on a recurring basis	\$ 2,879,443	\$ 3,193,058	\$ -	\$ 1,483,455	\$ 7,555,956
<b>LIABILITIES</b>					
Payable under securities lending agreement	\$ (80,527)	\$ -	\$ -	\$ -	\$ (80,527)
Derivative instruments	-	(6,562)	-	-	(6,562)
Total liabilities measured at fair value on a recurring basis	\$ (80,527)	\$ (6,562)	\$ -	\$ -	\$ (87,089)

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 7. FINANCIAL INSTRUMENTS

UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on its investments in debt and equity securities as investment revenue in the condensed consolidated statements of operations and changes in net assets. Unrealized gains and losses on donor-restricted assets are recorded as changes in net assets with donor restrictions in the condensed consolidated statements of operations and changes in net assets. Gains and losses on the sales of securities are determined by the average cost method. Realized gains and losses are included in investment revenue in the condensed consolidated statements of operations and changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations. Cash and cash equivalents and investments recorded at fair value aggregate to \$9,584,588 and \$9,015,921 at March 31, 2021 and December 31, 2020, respectively. As of March 31, 2021 and December 31, 2020, respectively, UPMC has \$2,977,831 and \$3,050,333 of total cash and investments that are held by UPMC's captive and regulated entities.

Investments in limited partnerships that invest in nonmarketable securities are primarily recorded at fair value using the NAV practical expedient if the ownership percentage is less than 5% and are reported using the equity method of accounting if the ownership percentage is greater than 5%. UPMC had \$933,929 and \$857,235 of alternative investments accounted for under the equity method, which approximates fair value, at March 31, 2021 and December 31, 2020, respectively.

UPMC participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the condensed consolidated balance sheet. Total collateral is required to have a market value between 102% and 105% of the market value of securities loaned. As of March 31, 2021 and December 31, 2020, respectively, securities loaned, of which UPMC maintains ownership, total \$422,862 and \$251,339, and total collateral (cash and noncash) received related to the securities loaned was \$437,862 and \$265,892.

## 8. DERIVATIVE INSTRUMENTS

UPMC uses derivative financial instruments to manage exposures on its debt. By using derivatives to manage these risks, UPMC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivatives. When the fair value of a derivative is positive, the counterparty owes UPMC, which creates credit risk for UPMC. When the fair value of a derivative is negative, UPMC owes the counterparty and, therefore, it does not incur credit risk. UPMC minimizes the credit risk in derivatives by entering into transactions that require the counterparty to post collateral for the benefit of UPMC based on the credit rating of the counterparty and the fair value of the derivative. If UPMC has a derivative in a liability position, the counterparty bears UPMC's credit risk and fair market values could be adjusted downward. Market risk is the effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

UPMC maintains interest rate swap programs on certain of its debt in order to manage its interest rate risk. To meet this objective, UPMC entered into various interest rate swap agreements. The notional amount under each agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bonds series.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

The following table summarizes UPMC's interest rate swap agreements:

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
				Mar 31, 2021	Dec 31, 2020
Floating to fixed	2025	3.60%	68% one-month LIBOR	\$ 60,030	\$ 60,030
Basis	2021	SIFMA Index	67% three-month LIBOR plus .2077%	-	7,375
Basis	2037	SIFMA Index	67% three-month LIBOR plus .3217%	46,095	46,095
Floating to fixed	2024	1.413%	67% one-month LIBOR	8,000	8,000
				\$ 114,125	\$ 121,500

Pursuant to master netting arrangements, UPMC has the right to offset the fair value of amounts recognized for derivatives, including the right to reclaim or obligation to return cash collateral from/to counterparties. The fair values of UPMC's derivative financial instruments are presented below, representing the gross amounts recognized as of March 31, 2021 and December 31, 2020, which are not offset by counterparty or type of item hedged:

	Mar 31, 2021	Dec 31, 2020
Other assets	\$ 493	\$ 544
Long-term obligations	(5,574)	(6,562)
	\$ (5,081)	\$ (6,018)

The accounting for changes in the fair value (i.e., unrealized gains or losses) of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. None of UPMC's derivatives outstanding as of March 31, 2021 and December 31, 2020 are designated as hedging instruments and as such, changes in fair value are recognized in investing and financing activities as investment revenue in the condensed consolidated statements of operations and changes in net assets. Certain of UPMC's derivatives contain provisions that require UPMC's debt to maintain an investment grade credit rating from certain major credit rating agencies. If UPMC's debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivatives could request payment or demand immediate and ongoing full overnight collateralization on derivatives in net liability positions.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 9. PENSION PLANS

UPMC and its subsidiaries maintain defined benefit pension plans (the "Plans"), defined contribution plans and nonqualified pension plans that cover substantially all of UPMC's employees. Benefits under the Plans vary and are generally based upon the employee's earnings and years of participation.

The components of net periodic pension cost, of which only service cost is included in operating income and all other components are in other non-operating gains on the condensed consolidated statements of operations and changes in net assets, for the Plans are as follows:

	Three Months Ended March 31	
	2021	2020
Service cost	\$ 43,505	\$ 38,310
Interest cost	19,163	18,886
Expected return on plan assets	(47,846)	(42,120)
Recognized net actuarial loss	7,070	6,672
Amortization of prior service credit	(1,314)	(1,314)
Net periodic pension cost	\$ 20,578	\$ 20,434

## 10. LEASES

UPMC has operating and finance leases for corporate offices, physician offices and various equipment types, among others. These lease arrangements have remaining lease terms of one year to 25 years, some of which include options to extend the leases for several periods, and some of which include options to terminate the leases within one year. Balance sheet information related to leases were as follows:

	Mar 31, 2021	Dec 31, 2020
<b>OPERATING LEASES</b>		
Operating lease right-of-use assets	\$ 1,017,206	\$ 1,033,598
Other current liabilities	117,276	119,135
Operating lease liabilities	950,301	963,812
Total operating lease liabilities	\$ 1,067,577	\$ 1,082,947
<b>FINANCE LEASES</b>		
Property, plant and equipment, net	\$ 72,909	\$ 74,143
Other current liabilities	24,395	24,245
Other noncurrent liabilities	59,992	54,866
Total finance lease liabilities	\$ 84,387	\$ 79,111

Undiscounted maturities of lease liabilities were as follows:

For the Years Ended December 31	Operating Leases	Finance Leases
2021 (rest of year)	\$107,446	\$29,162
2022	131,771	21,681
2023	125,004	13,140
2024	112,558	6,037
2025	99,684	2,242
Thereafter	732,927	19,400

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 11. CONTINGENCIES

On October 9, 2012, UPMC received a Civil Investigative Demand (“CID”) from the Department of Justice (“DOJ”) that sought records relating to 40 surgical procedures performed between January 25, 2008 and June 24, 2010. UPMC timely responded to that CID. In November 2013, the DOJ advised UPMC that the CID had been served as part of the DOJ’s investigation of allegations asserted by Relators in a federal qui tam lawsuit filed under seal. On July 27, 2016, the DOJ announced that it had reached an agreement with UPMC to settle certain allegations that UPMC had violated the False Claims Act for approximately \$2,500. UPMC admitted no liability in settling those claims. The DOJ declined to intervene in the remaining allegations of the Relators’ lawsuit, which was also unsealed on July 27, 2016. In their Second Amended Complaint against UPMC and UPP, Inc., Relators allege that UPMC violated the False Claims Act by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. On January 28, 2020, UPMC answered the Second Amended Complaint. Discovery is proceeding. The outcome and ultimate effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On June 14, 2019, Homestead Strategic Holdings Inc. and certain of its subsidiaries filed a Complaint with the Pennsylvania Department of State challenging the Institution of Purely Public Charity Act (“IPPCA”) status of UPMC, UPMC Health Coverage, Inc. and UPMC Susquehanna (collectively, “UPMC”). On December 21, 2020, an Arbitrator entered a Final Determination in UPMC’s favor, finding no violation of the IPPCA and ordering the Plaintiffs to pay the costs of the arbitration. On January 19, 2021, the Plaintiffs filed an appeal to the Philadelphia Court of Common Pleas. The outcome and ultimate effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On July 29, 2019, UPMC received two grand jury subpoenas and an unexecuted search warrant from the DOJ seeking various records from one of UPMC’s clinical departments. UPMC received a CID from DOJ about that same department on January 15, 2020. UPMC is complying with the subpoenas, search warrant and CID. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On or about June 8, 2020, a False Claims Act lawsuit that had been filed against UPMC in federal court in September 2019 was unsealed after DOJ filed a notice of its decision not to intervene in the matter. Among other things, the Relator alleges that certain UPMC physicians allegedly secured patients’ informed consent the wrong way by delegating the informed consent process to other practitioners. On August 7, 2020, UPMC moved to dismiss the Relator’s claims. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On or about December 15, 2020, a current employee filed a claim against UPMC, the University of Pittsburgh and other defendants, contending that the Defendants retaliated against him for authoring an article asserting that the medical profession discriminates against applicants from underrepresented races and ethnicities. On April 11, 2021, the UPMC Defendants moved to dismiss most of the claims in the Complaint. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On or about March 9, 2021, Vince Ranalli and Lou Ranalli filed a putative class action in the Allegheny County Court of Common Pleas against UPMC and a local law firm that UPMC had retained. The lawsuit alleges that a data breach at the law firm exposed the plaintiffs’ personal medical and financial information. UPMC intends to zealously defend against the allegations in the Complaint. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 12. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to March 31, 2021 through May 27, 2021, the date the unaudited interim condensed consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition or disclosure in the condensed consolidated financial statements except as noted below.

Subsequent to March 31, UPMC issued \$221,860 of Series 2021A revenue bonds and \$47,430 of Series 2021B revenue bonds, and also issued the \$400,000 Series 2021C taxable note. Details of the offerings can be found in the applicable Official Statements for each issue.