

# UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED SEPTEMBER 30, 2021

**UPMC**  
LIFE CHANGING MEDICINE

# UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED SEPTEMBER 30, 2021

## 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
Condensed Consolidated Balance Sheets . . . . .	21
Condensed Consolidated Statements of Operations and Changes in Net Assets . . . . .	22
Condensed Consolidated Statements of Cash Flows . . . . .	23
Notes to Unaudited Condensed Consolidated Financial Statements . . . . .	24

The following financial data as of September 30, 2021 and for the three- and nine-month periods ended September 30, 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 SEPTEMBER 30, 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; and its Enterprises division.

We are committed to providing high quality, cost-effective healthcare to our communities and our insurance members, while continuing to grow our business and execute on our mission of service. As part of this mission, UPMC continues to make significant investments in equipment, technology and operational strategies designed to improve clinical quality and to provide the best possible patient and member experience. Investments in our operations and continued capital improvements are expected to become increasingly important as the competitive environment of the market and national changes to the industry continue to shift the landscape of healthcare. We build new facilities, make strategic acquisitions and enter into joint venture arrangements or affiliations with healthcare businesses — in each case in communities where we believe our mission can be effectively utilized to improve the overall health of those communities.

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. 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 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 SEPTEMBER 30, 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 federal government declared it a national emergency in the United States. 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 generally rebounded to near pre-COVID-19 levels, UPMC and its subsidiaries have and expect to continue to experience some impact on 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 has been 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 through September 30, 2021. Approximately \$380 million was recognized as other operating revenue for the year ended December 31, 2020. For the nine months ended September 30, 2021, an additional \$213 million was recognized as UPMC continued to experience COVID-19 impacts. In the comparable nine-month period ended September 30, 2020, UPMC recognized \$318 million. The remaining amounts received will be evaluated for recognition in future periods as regulatory guidance further develops.

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") 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. 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 began in April 2021 and the recovery period is estimated to be approximately 18 months from that date. As of September 30, 2021, \$213 million of the advance funding had been recouped by CMS. 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 currently has \$207 million of deferred FICA payments as of September 30, 2021. Repayment to the federal government will be in equal payments in December 2021 and in December 2022.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2021

## CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Nine Months Ended September 30	2021	2020*
Operating revenues	\$ 18,324	\$ 16,933
Operating income	\$ 798	\$ 397
Operating margin %	4.4%	2.3%
Operating margin % (after income tax and interest expense)	3.7%	1.5%
Gain (loss) from investing and financing activities	\$ 557	\$ (178)
Excess of revenues over expenses	\$ 1,241	\$ 263
Operating EBIDA	\$ 1,317	\$ 912
Capital expenditures	\$ 552	\$ 599
Reinvestment ratio	1.06	1.16

Selected Other Information as of	September 30, 2021	December 31, 2020
Total cash and investments	\$ 10,918	\$ 9,873
Unrestricted cash and investments	\$ 9,476	\$ 8,440
Unrestricted cash and investments over long-term debt <sup>1</sup>	\$ 3,150	\$ 2,036
Days of cash on hand	151	142
Days in net accounts receivable	44	39
Average age of plant (in years)	9.7	9.2

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

<sup>1</sup>Excludes \$627 million and \$840 million of Medicare advance funding as of September 30, 2021 and December 31, 2020, respectively, and \$207 million and \$225 million of deferred FICA payments as of September 30, 2021 and December 31, 2020, respectively.

Operating income of \$798 million for the nine months ended September 30, 2021 increased \$401 million compared to the same period in the prior year. Excess of revenues over expenses was \$1.2 billion. Operating earnings before interest, depreciation and amortization (EBIDA) totaled \$1.3 billion for the nine months ended September 30, 2021. As of September 30, 2021, UPMC had \$10.9 billion of cash and investments, of which approximately \$3.2 billion is held by UPMC's regulated health and captive insurance companies.

For the nine months ended September 30, 2021:

- Hospital medical-surgical admissions and observation cases increased 5% compared to the prior year,
- Hospital outpatient revenue per workday increased 17% compared to the prior year,
- Physician service revenue per weekday increased 12% from the comparable period in the prior year, and
- Enrollment in UPMC's Insurance Services grew to approximately 4.1 million members as of September 30, 2021.

UPMC's gain from investing and financing activities for the nine months ended September 30, 2021 was \$557 million. UPMC continues to have a long-term perspective with regard to its investment activities.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2021

## BUSINESS HIGHLIGHTS

Throughout the COVID-19 pandemic, UPMC never stopped providing the essential care that our patients and communities needed. Serving as a trusted source in all of the regions we serve, our clinical experts and operational leaders have hosted more than 30 press conferences to provide the most crucial up-to-date information to help keep our communities safe.

In addition to education, UPMC has remained committed to community-based vaccination clinics in all of the regions we serve. We continue to accelerate our community partnerships to take care of our most vulnerable community members. We are strategically creating clinics to ensure access for all, providing more than 41,000 vaccine doses at locations like churches and farmers markets – for which many of our employees volunteer their service. At school-based clinics, we've provided more than 10,000 vaccine doses. We have also given more than 1,300 vaccines to homebound individuals—in addition to continuing to provide COVID-19 vaccination at our fixed location clinics where people can schedule appointment times. Through our efforts, we have been able to provide nearly 700,000 doses to the community—and we will continue to offer these clinics as long as there is a need.

In late 2020, an outpatient treatment became available for COVID-19: monoclonal antibodies. UPMC has given nearly 12,000 patients this treatment, which our clinical data has shown cuts the risk of hospitalization and death by more than 60%. In recognition of our efforts, The White House partnered with UPMC to give ample supply of monoclonal antibodies for further research. Because it must be given through IV infusion or injection to people actively contagious with the virus, administering monoclonal antibodies can be difficult, so many hospitals and health systems decided not to offer it. But UPMC rose to the challenge and set up more than 40 outpatient clinics across the communities we serve. And, when a patient can't come to one of these locations, we come to them. This work allowed UPMC to achieve equity in its administration of this treatment, closing the Black-White treatment gap and increasing by 7.5-fold the number of patients helped. As of November 2021, UPMC has given this treatment to more patients than any other health system in the Commonwealth and is among the top providers of monoclonal antibodies in the nation.

Our continuing leadership role as the pandemic evolves comes from strongly supporting the people of UPMC, including our dedicated employees and physicians. Throughout 2020 and 2021:

- We did not cut pay and benefits as a result of the loss of patient volume, but instead honored our commitment to our employees through our merit program, providing increases to employees, as scheduled in 2020 and 2021.
- We added pay protection to allow staff without enough work to be paid during the pandemic. We did this before the government created its own pay protection program.
- We quarantined employees at risk and paid them while they were out to protect our entire workforce against infection from within.
- We provided training and personal protective equipment to employees on the front lines of the pandemic to ensure their safety and that of their families.

In November 2021, UPMC announced that it will invest more than \$300 million to support our workforce, with enhancements in a number of areas, including rewarding each eligible employee with a one-time \$500 bonus as a special “thank you” for their service. It was also announced that there would be substantial improvements to our already robust benefit programs to ensure all employees have affordable and valuable coverage. Lastly, we announced an investment in our merit program to ensure leaders are better positioned to reward strong performances during 2021, when the next merit increases are made in May 2022. This action is being taken to recognize outstanding work throughout these unprecedented times.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2021

In September 2021, UPMC was named one of the nation's "Digital Health Most Wired" health systems by the College of Healthcare Information Management Executives ("CHIME") for the 23rd year in a row—and one of only seven health systems eligible for the highest tier of recognition. The CHIME Digital Health Most Wired program conducts an annual survey to assess how effectively health care organizations use advanced technologies in their clinical and business operations to improve the health of their communities. More than 36,000 organizations completed the survey this year. UPMC earned the highest score possible in the domestic ambulatory and acute categories. UPMC has implemented advanced technologies—including telemedicine, access to data at the bedside and cost analysis tools—and leveraged them to improve care, patient experience and access to services, while reducing costs. UPMC Hillman Cancer Center facilities nationwide and UPMC-managed ISMETT in Palermo, Italy also earned high recognition in the ambulatory domestic and international acute categories, respectively, using patient portals, telemedicine and other technology to expand access to care. UPMC Community Provider Services was among those that received recognition in the Long-Term Care-specific category. Over the last five years, UPMC has invested more than \$2.4 billion in technologies across the health system to improve the quality and effectiveness of care. Renowned for its technology leadership, UPMC was an early adopter of electronic medical records and is pioneering advancements in biometrics, machine learning and natural language processing.

In September 2021, UPMC implemented Infectious Disease Connect's powerful platform for antimicrobial stewardship and infectious diseases ("ID") decision support to centralize and improve ID treatment across the health system. ID Connect's ILÚM Insight® Platform provides actionable alerts to provide real-time interventions related to antibiotic use. The innovative platform also has improved the workflow of infectious disease pharmacists and their communication with health care providers at the bedside, resulting in better and faster care for patients. ID Connect is a portfolio company of UPMC Enterprises, the innovation, commercialization and venture capital arm of UPMC, and also is backed by the Merck Global Health Innovation Fund. The Pittsburgh-based company provides hospitals with timely, telemedicine-enabled consultations with infectious disease experts and offers a sophisticated clinical decision support platform, parts of which are now implemented at 20 of UPMC's hospitals. ID Connect's software helps ID pharmacists and doctors select the most appropriate antimicrobial therapy while managing toxicity, costs and the potential for drug resistance and transmission of infection. Using machine learning, the technology also can combine a patient's demographic factors, medication history, past hospitalizations, risk factors and other data to generate individualized treatment recommendations. ID Connect serves more than 40 facilities in nine states.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2021

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Nine Months Ended September 30, 2021

(in millions)

	Health Services	Insurance Services	Eliminations	Consolidated
<b>Revenues:</b>				
Net patient service revenue	\$ 9,714	\$ -	\$ (1,973)	\$ 7,741
Insurance enrollment revenue	-	9,009	-	9,009
Other revenue	1,128	652	(206)	1,574
<b>Total operating revenues</b>	<b>\$ 10,842</b>	<b>\$ 9,661</b>	<b>\$ (2,179)</b>	<b>\$ 18,324</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 5,733	\$ 398	\$ (47)	\$ 6,084
Insurance claims expense	-	8,299	(1,973)	6,326
Supplies, purchased services and general	3,958	798	(159)	4,597
Depreciation and amortization	509	10	-	519
<b>Total operating expenses</b>	<b>10,200</b>	<b>9,505</b>	<b>(2,179)</b>	<b>17,526</b>
<b>Operating income</b>	<b>\$ 642</b>	<b>\$ 156</b>	<b>\$ -</b>	<b>\$ 798</b>
<b>Operating margin %</b>	<b>5.9%</b>	<b>1.6%</b>	<b>-</b>	<b>4.4%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>4.8%</b>	<b>1.6%</b>	<b>-</b>	<b>3.7%</b>
<b>Operating EBIDA</b>	<b>\$ 1,151</b>	<b>\$ 166</b>	<b>\$ -</b>	<b>\$ 1,317</b>
<b>Operating EBIDA %</b>	<b>10.6%</b>	<b>1.7%</b>	<b>-</b>	<b>7.2%</b>

Nine Months Ended September 30, 2020\*

(in millions)

	Health Services	Insurance Services	Eliminations	Consolidated
<b>Revenues:</b>				
Net patient service revenue	\$ 8,504	\$ -	\$ (1,748)	\$ 6,756
Insurance enrollment revenue	-	8,524	-	8,524
Other revenue	1,215	612	(174)	1,653
<b>Total operating revenues</b>	<b>\$ 9,719</b>	<b>\$ 9,136</b>	<b>\$ (1,922)</b>	<b>\$ 16,933</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 5,448	\$ 395	\$ (26)	\$ 5,817
Insurance claims expense	-	7,635	(1,748)	5,887
Supplies, purchased services and general	3,732	733	(148)	4,317
Depreciation and amortization	504	11	-	515
<b>Total operating expenses</b>	<b>9,684</b>	<b>8,774</b>	<b>(1,922)</b>	<b>16,536</b>
<b>Operating income</b>	<b>\$ 35</b>	<b>\$ 362</b>	<b>\$ -</b>	<b>\$ 397</b>
<b>Operating margin %</b>	<b>0.4%</b>	<b>4.0%</b>	<b>-</b>	<b>2.3%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>(0.8)%</b>	<b>3.7%</b>	<b>-</b>	<b>1.5%</b>
<b>Operating EBIDA</b>	<b>\$ 539</b>	<b>\$ 373</b>	<b>\$ -</b>	<b>\$ 912</b>
<b>Operating EBIDA %</b>	<b>5.5%</b>	<b>4.1%</b>	<b>-</b>	<b>5.4%</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 SEPTEMBER 30, 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 more than 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), and central (including Williamsport and Harrisburg) Pennsylvania, as well as western New York and northwestern Maryland; 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 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 nine months ended September 30, 2021 increased \$607 million versus the same period in the prior year. Volumes within Health Services entities have generally rebounded to near pre-COVID-19 levels in 2021, while the prior year saw sharp volume declines as the initial impacts of the COVID-19 pandemic were felt, resulting in reduced patient revenues for the division. Additionally, UPMC recognized \$51 million in operating income in the current year related to the CARES Act Employer Retention Credit and a favorable legal settlement of \$42 million.

## Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have over four million members as of September 30, 2021. UPMC Health Plan is a health maintenance organization ("HMO") offering coverage for commercial and Medicare members. UPMC for You, also an HMO, 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 nine months ended September 30, 2021 decreased by \$206 million versus the same period in the prior year. This decrease in operating income is due largely to an increase in medical claims expense in 2021 as prior year volumes and related medical claims expense were significantly reduced by the governmental restrictions as a result of the COVID-19 pandemic.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 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

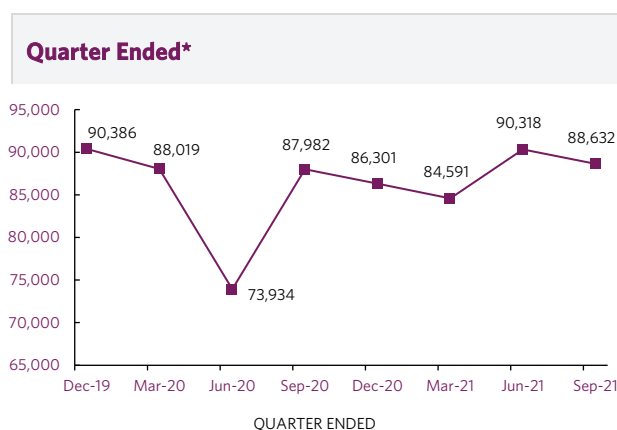
PERIOD ENDED SEPTEMBER 30, 2021

## 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 nine months ended September 30, 2021 increased 5% compared to the same period in 2020 as volumes have now generally rebounded to near pre-COVID-19 levels.

For the Nine Months Ended September 30			
(in thousands)	2021	2020*	Change
<b>Academic</b>	<b>88.7</b>	83.1	7%
<b>Community</b>	<b>39.4</b>	37.8	4%
<b>Regional</b>	<b>135.5</b>	129.0	5%
<b>Total</b>	<b>263.6</b>	249.9	5%

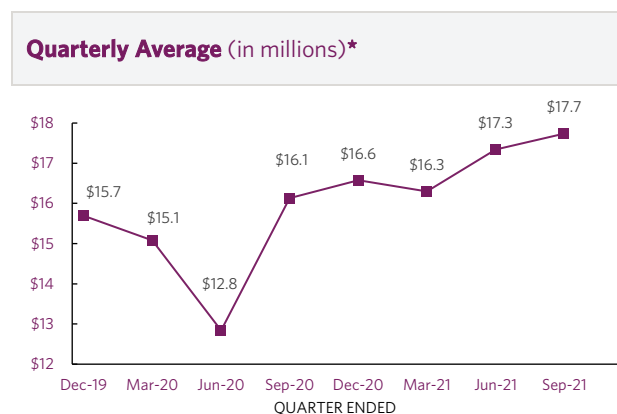


\*Prior year amounts have been adjusted to conform to current year presentation.

### Outpatient Revenue per Workday

UPMC's outpatient activity for the nine months ended September 30, 2021 as measured by average revenue per workday increased 17% 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 Nine Months Ended September 30			
(in thousands)	2021	2020*	Change
<b>Academic</b>	<b>\$ 6,386</b>	\$ 5,683	12%
<b>Community</b>	<b>1,815</b>	1,512	20%
<b>Regional</b>	<b>8,930</b>	7,491	19%
<b>Total</b>	<b>\$ 17,131</b>	\$ 14,686	17%



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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

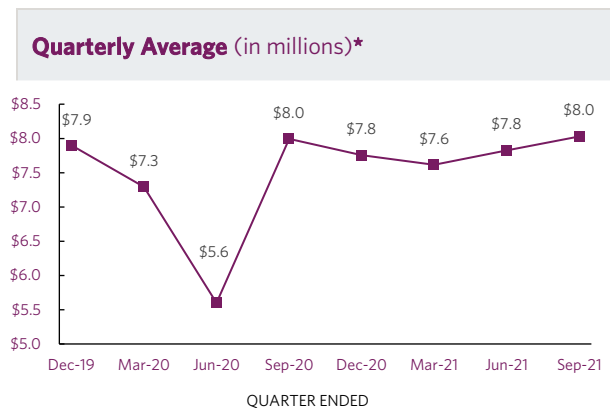
PERIOD ENDED SEPTEMBER 30, 2021

## REVENUE METRICS – HEALTH SERVICES (CONTINUED)

### Physician Service Revenue per Weekday

UPMC's physician activity for the nine months ended September 30, 2021 as measured by average revenue per weekday increased 12% 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 Nine Months Ended September 30			
(in thousands)	2021	2020*	Change
<b>Academic</b>	\$ 3,532	\$ 3,210	10%
<b>Community</b>	1,703	1,602	6%
<b>Regional</b>	2,588	2,150	20%
<b>Total</b>	\$ 7,823	\$ 6,962	12%



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

### Sources of Patient Service Revenue

The gross patient service revenues, before price concessions, intercompany, and eliminations, 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.

	Nine Months Ended September 30	
	2021	2020
<b>Medicare</b>	47%	47%
<b>Medical Assistance</b>	18%	17%
<b>UPMC Insurance Services Commercial</b>	12%	13%
<b>Highmark Commercial</b>	9%	9%
<b>National Insurers Commercial</b>	6%	6%
<b>Self-pay/Other</b>	8%	8%
<b>Total</b>	100%	100%

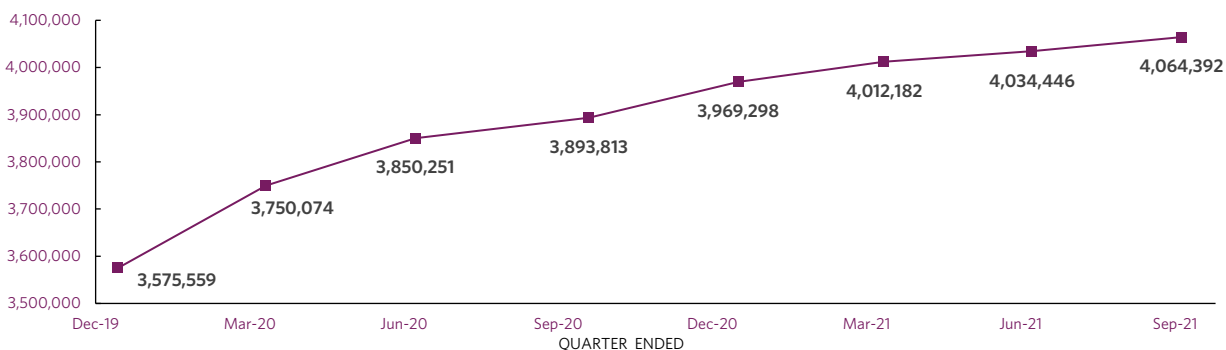
# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2021

## OPERATING METRICS - INSURANCE SERVICES

### Membership

Membership in the UPMC Insurance Services division increased to 4,064,392 as of September 30, 2021, a 4% increase versus September 30, 2020.



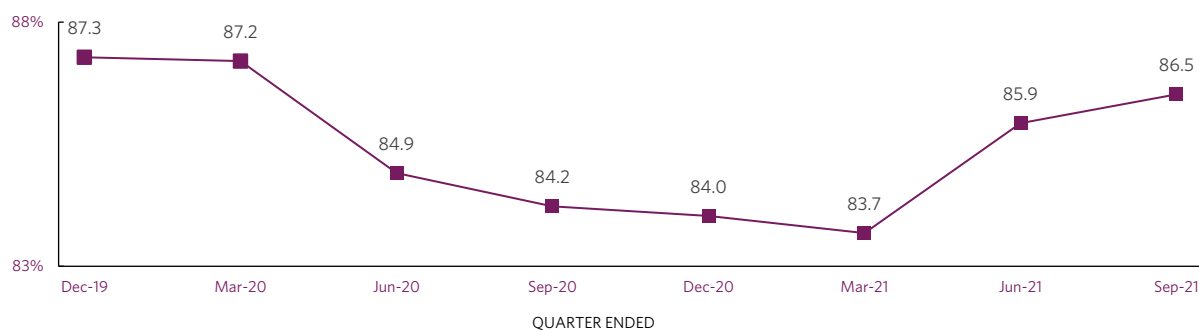
As of	September 30, 2021	September 30, 2020*
Commercial Health	658,562	689,141
Medicare	200,738	195,793
Medical Assistance	557,427	508,609
Sub-Total Physical Health Products	1,416,727	1,393,543
Community HealthChoices	132,677	130,706
Behavioral Health	1,236,523	1,106,349
Sub-Total Health Products	2,785,927	2,630,598
Work Partners and Life Solutions	734,647	716,561
Ancillary Products	475,067	480,260
Third-Party Administration	68,751	66,394
<b>Total Membership</b>	<b>4,064,392</b>	<b>3,893,813</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 increased to 86.5% as of September 30, 2021 as a result of an increase in medical claims expense in 2021 related to the effects of utilization increases. The chart below is updated quarterly to reflect updated estimates and actual medical claims expense experience for each presented period.

#### Trailing Twelve Months



# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2021

## KEY FINANCIAL INDICATORS

(Dollars in millions)

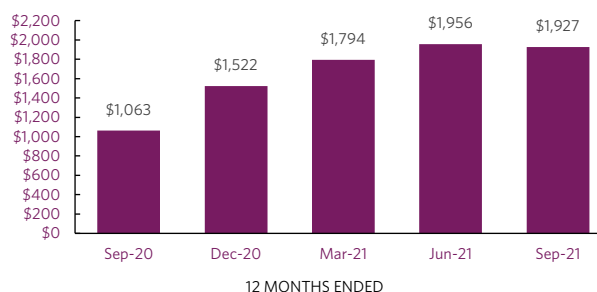
### Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the nine months ended September 30, 2021 increased 44% as compared to the nine months ended September 30, 2020.

For the Nine Months Ended September 30			
(in thousands)	2021	2020*	Change
<b>Operating Income</b>	\$ 798	\$ 397	101%
<b>Depreciation and Amortization</b>	519	515	1%
<b>Operating EBIDA</b>	\$ 1,317	\$ 912	44%

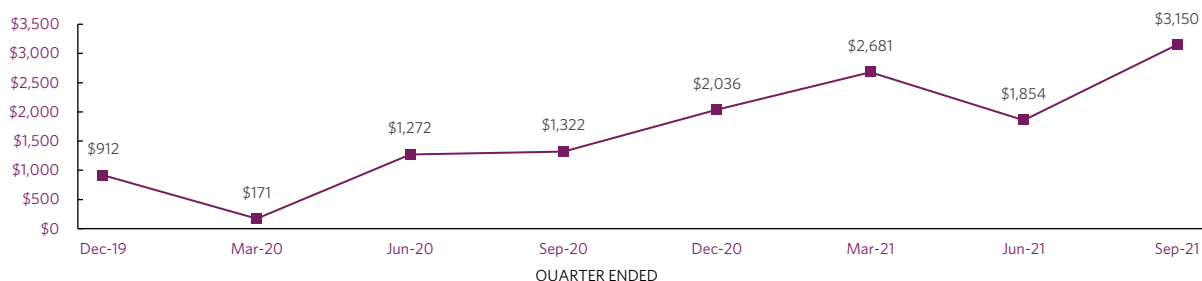
\*Reclassifications were made to prior periods to conform to current year presentation. See reclassifications disclosure in Footnote 4.

### Trailing Twelve Months Operating EBIDA



### Unrestricted Cash and Investments Over Long Term Debt

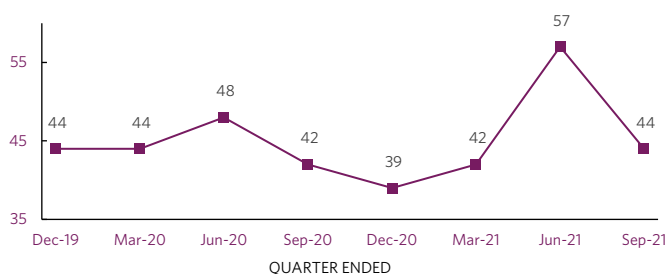
Unrestricted cash and investments over long term debt as of September 30, 2021 increased \$1.1 billion when compared to December 31, 2020 due primarily to strong operating performance and positive investment returns in the first nine months of 2021. Advance funding from CMS and deferred FICA payments are excluded from this calculation.



### Days in Net Accounts Receivable

Days in Accounts Receivable at September 30, 2021 and December 31, 2020 were 44 and 39, respectively.

By Receivable	Sep 2021 Balance	Days	
		Sep 30, 2021	Dec 31, 2020
<b>Patient AR</b>	\$ 1,368	48	47
<b>Other AR</b>	1,555	40	35
<b>Consolidated</b>	\$ 2,923	44	39





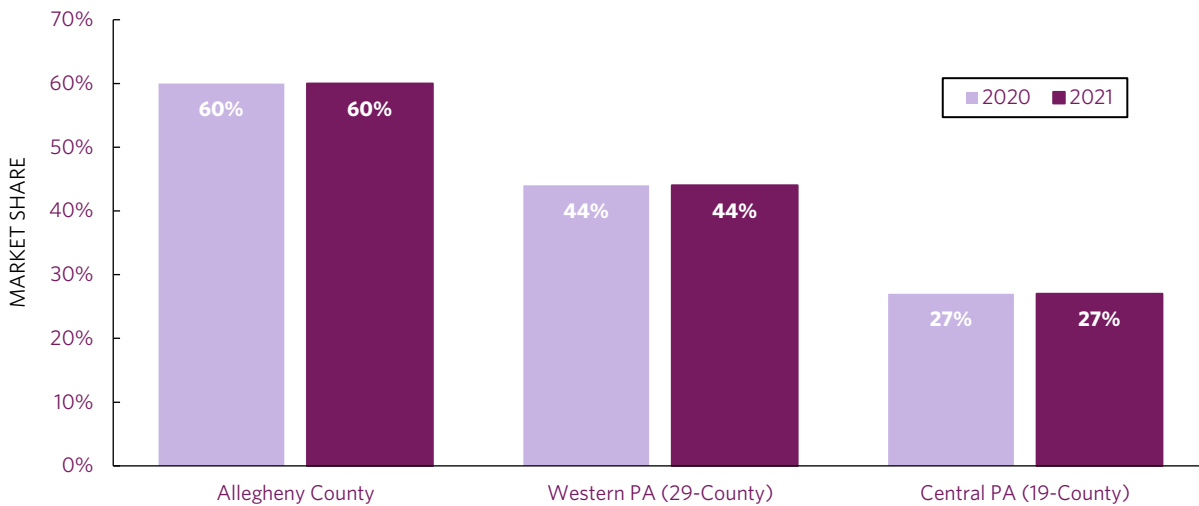
# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2021

## MARKET SHARE

The chart below shows the change in UPMC's estimated inpatient market share for the first quarter of calendar years 2020 and 2021 by service area.<sup>(1)</sup> This is the most recent market share data currently available.

### UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE AS OF MARCH 31<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 SEPTEMBER 30, 2021

## ASSET AND LIABILITY MANAGEMENT

During the nine months ended September 30, 2021, UPMC's investment portfolio returned 7.5%. As of September 30, 2021, UPMC utilized 166 ongoing external investment managers including 47 traditional managers, 18 hedge fund managers and 101 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 18.4%, 8.8% and 8.7% for the trailing one-, three- and five-year periods. As of September 30, 2021, 72% of UPMC's investment portfolio could be liquidated within three days.

UPMC's annualized cost of capital during the nine-month period ended September 30, 2021 was 3.01%. 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 September 30, 2021, the interest rates on UPMC's long-term debt were approximately 88% fixed and 12% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 1.37%. The annualized interest cost for the fixed rate debt was 3.24%. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of \$600 million. As of September 30, 2021, UPMC had approximately \$79 million letters of credit outstanding under the credit facility leaving \$521 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 September 30, 2021, there were no draws on either credit facility.

To further support the Insurance Services Division, UPMC has two additional credit facilities with a capacity totaling \$400 million. The credit facilities expire on varying dates through April 2022. As of September 30, 2021, there were no draws on either credit facility.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2021

The table below compares reported Investing and Financing Activity for the nine months ended September 30, 2021 and 2020 by type.

## Investing and Financing Activity by Type

Nine Months Ended September 30	2021	2020
<i>(in thousands)</i>		
Realized gain	\$ 483,030	\$ 136,763
Interest and dividends, net of fees	51,014	57,271
Realized investment gain	\$ 534,044	\$ 194,034
Unrealized gain (loss) on derivative contracts	1,879	(912)
Other unrealized gain (loss)	203,049	(134,837)
Investment gain	\$ 738,972	\$ 58,285
Interest expense	(122,628)	(134,134)
(Loss) gain on extinguishment of debt	(7,344)	2,246
UPMC Enterprises activity	(52,242)	(103,943)
<b>Gain (loss) from investing and financing activities</b>	<b>\$ 556,758</b>	<b>\$ (177,546)</b>

## Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of September 30, 2021, UPMC had approximately \$1.2 billion of cash and cash equivalents on hand and borrowing availability under the primary credit facility was \$521 million.

Operating EBIDA was \$1.3 billion for the nine months ended September 30, 2021, compared to \$912 million for the nine months ended September 30, 2020. Key uses of cash for the nine months ended September 30, 2021 include capital expenditures of \$533 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 SEPTEMBER 30, 2021

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, rehabilitation and skilled nursing patient activity for the nine months ended September 30, 2021 and 2020.

	Nine Months Ended September 30	
	2021	2020*
Licensed Beds	8,764	8,520
<b>BEDS IN SERVICE</b>		
Medical-Surgical	5,088	4,871
Psychiatric	430	421
Rehabilitation	256	241
Skilled Nursing	1,552	1,562
Total Beds in Service	7,326	7,095
<b>PATIENT DAYS</b>		
Medical-Surgical	1,059,068	932,421
Psychiatric	92,233	91,625
Rehabilitation	56,476	56,663
Skilled Nursing	294,254	334,355
Total Patient Days	1,502,031	1,415,064
Average Daily Census	5,502	5,164
Observation Days	129,583	115,252
Obs Average Daily Census	475	421
<b>ADMISSIONS AND OBSERVATION CASES</b>		
Medical-Surgical	189,010	179,750
Observation Cases	74,531	70,185
Subtotal	263,541	249,935
Psychiatric	8,189	8,488
Rehabilitation	3,457	3,677
Skilled Nursing	2,691	2,743
Total Admissions and Observation Cases	277,878	264,843
Overall Occupancy	82%	79%
<b>AVERAGE LENGTH OF STAY</b>		
Medical-Surgical	5.6	5.2
Psychiatric	11.3	10.8
Rehabilitation	16.3	15.4
Skilled Nursing	109.3	121.9
Overall Average Length of Stay	7.4	7.3
Emergency Room Visits	772,991	711,823
<b>TRANSPLANTS (DOMESTIC)</b>		
Liver	116	140
Kidney	203	243
All Other	206	247
Total	525	630
<b>OTHER POST-ACUTE METRICS</b>		
Home Health Visits	521,391	581,022
Hospice Care Days	119,814	124,116
Outpatient Rehab Visits	550,234	436,834

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

## OUTSTANDING DEBT

PERIOD ENDED SEPTEMBER 30, 2021  
(DOLLARS IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$43,592
	UPMC	2007A	45,958
	UPMC	2011A	9,813
	UPMC	2017D	399,726
	UPMC	2019A	775,785
	UPMC	2021B	56,073
Monroeville Finance Authority	UPMC	2012	292,706
	UPMC	2013B	48,435
	UPMC	2014B	45,141
Pennsylvania Economic Development Financing Authority	UPMC	2013A	107,087
	UPMC	2014A	273,060
	UPMC	2015B	116,534
	UPMC	2016	231,007
	UPMC	2017A	432,510
	UPMC	2017B	93,080
	UPMC	2017C	134,624
	UPMC	2020A	273,424
	UPMC	2021A	261,098
Tioga County Industrial Development Authority	Laurel Health System	2010	6,216
	Laurel Health System	2011	4,562
Dauphin County General Authority	Pinnacle Health System	2012A	135,996
	Pinnacle Health System	2016A	97,390
	Pinnacle Health System	2016B	82,950
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	6,796
	Hanover Hospital	2015	22,496
Potter County Hospital Authority	UPMC	2018A	15,333
Somerset County Hospital Authority	Somerset Hospital	2009	774
	Somerset Hospital	2015A	16,000
Maryland Health and Higher Educational Facilities Authority	UPMC	2020B	201,675
None	UPMC	2020D	349,580
	UPMC	2020 Term Loans	499,897
	UPMC	2021C	399,329
	Susquehanna Health Innovation Center	New Market Tax Credit	17,600
	Somerset Management Services	2013	1,532
	Various	Financing Leases & Loans	132,084
		Swap Liabilities	4,555
<b>Total</b>			<b>\$5,634,418</b>

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

Source: UPMC Records

# DEBT COVENANT CALCULATIONS

PERIOD ENDED SEPTEMBER 30, 2021

## DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

	Trailing Twelve-Month Period Ended September 30, 2021	
Excess of revenues over expenses	\$	2,050,915
<b>ADJUSTED BY:</b>		
Net Unrealized Gains during Period <sup>(1)</sup>		(547,212)
Depreciation and Amortization <sup>(1)</sup>		689,013
Loss on Extinguishment of Debt <sup>(1)</sup>		8,316
Inherent Contribution <sup>(1)</sup>		3,958
Realized Investment Impairments <sup>(2)</sup>		(17,998)
Interest Expense <sup>(3)</sup>		163,530
Revenues Available for Debt Service	\$	2,350,522
Historical Debt Service Requirements - 2007 MTI	\$	346,451
Debt Service Coverage Ratio - 2007 MTI		6.78X
Historical Debt Service Requirements - All Debt and Finance Leases	\$	383,383
Debt Service Coverage Ratio - All Debt and Finance Leases		6.13X

## LIQUIDITY RATIO AS OF SEPTEMBER 30, 2021

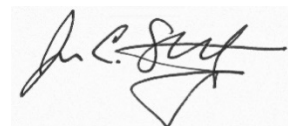
Unrestricted Cash and Investments	\$	9,475,749
Master Trust Indenture Debt		5,214,859
<b>Unrestricted Cash to MTI Debt</b>		<b>1.82</b>

<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 September 30, 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 SEPTEMBER 30, 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 September 30, 2021, and the related condensed consolidated statements of operations and changes in net assets for the three and nine-month periods ended September 30, 2021 and 2020 and condensed consolidated cash flows for the nine-month periods ended September 30, 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

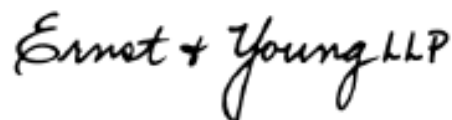
Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries 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  
November 23, 2021

# CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(DOLLARS IN THOUSANDS)

	As of	
	September 30, 2021	December 31, 2020
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,197,403	\$ 1,541,036
Patient accounts receivable	1,367,872	1,210,992
Other receivables	1,555,004	1,412,735
Other current assets	771,181	510,565
<b>Total current assets</b>	<b>4,891,460</b>	<b>4,675,328</b>
Board-designated, restricted, trustee and other investments	9,720,144	8,332,120
Beneficial interests in foundations and trusts	736,971	678,806
Net property, buildings and equipment	6,163,978	6,110,771
Operating lease right-of-use assets	983,567	1,033,598
Other assets	771,215	755,022
<b>Total assets</b>	<b>\$ 23,267,335</b>	<b>\$ 21,585,645</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 776,102	\$ 763,798
Accrued salaries and related benefits	1,073,143	866,890
Current portion of insurance reserves	1,037,957	950,387
Current portion of long-term obligations	143,087	333,864
Other current liabilities	1,816,157	1,281,417
<b>Total current liabilities</b>	<b>4,846,446</b>	<b>4,196,356</b>
Long-term obligations	5,491,331	5,258,046
Pension liability	234,528	171,983
Long-term insurance reserves	410,353	389,290
Operating lease noncurrent liabilities	907,122	963,812
Other noncurrent liabilities	653,378	1,184,968
<b>Total liabilities</b>	<b>12,543,158</b>	<b>12,164,455</b>
Net assets without donor restrictions	9,382,373	8,166,762
Net assets with donor restrictions	1,341,804	1,254,428
<b>Total net assets</b>	<b>10,724,177</b>	<b>9,421,190</b>
<b>Total liabilities and net assets</b>	<b>\$ 23,267,335</b>	<b>\$ 21,585,645</b>

See accompanying notes

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

(DOLLARS IN THOUSANDS)

	Nine Months Ended September 30		Three Months Ended September 30	
	2021	2020	2021	2020
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>				
Net patient service revenue	\$ 7,741,235	\$ 6,755,688	\$ 2,646,697	\$ 2,430,505
Insurance enrollment revenue	9,009,367	8,524,085	3,042,647	2,878,688
Other revenue	1,573,434	1,652,873	452,981	501,693
Total operating revenues	18,324,036	16,932,646	6,142,325	5,810,886
Salaries, professional fees and employee benefits	6,083,711	5,817,323	2,082,144	1,977,440
Insurance claims expense	6,326,472	5,886,391	2,161,290	1,986,146
Supplies, purchased services and general	4,596,878	4,316,387	1,530,906	1,450,076
Depreciation and amortization	518,680	515,252	174,279	172,154
Total operating expenses	17,525,741	16,535,353	5,948,619	5,585,816
Operating income	798,295	397,293	193,706	225,070
Academic and research support provided	(172,725)	(170,557)	(57,575)	(56,852)
Inherent contribution	-	164,523	-	(1,811)
Other non-operating gains	61,517	53,658	22,211	17,886
Income tax expense	(2,919)	(3,964)	(1,196)	(968)
After-tax income	\$ 684,168	\$ 440,953	\$ 157,146	\$ 183,325
Investing and financing activities:				
Investment gain	738,972	58,285	100,671	312,354
Interest expense	(122,628)	(134,134)	(39,456)	(45,370)
(Loss) gain on extinguishment of debt	(7,344)	2,246	635	2,006
UPMC Enterprises activity:				
Portfolio company revenue and net gains from sales	87,887	28,604	7,722	9,326
Portfolio company and research and development expense	(140,129)	(132,547)	(43,881)	(32,953)
Gain (loss) from investing and financing activities	556,758	(177,546)	25,691	245,363
Excess of revenues over expenses	1,240,926	263,407	182,837	428,688
Other changes in net assets without donor restrictions	(25,315)	(8,466)	(18,915)	(9,052)
Change in net assets without donor restrictions	1,215,611	254,941	163,922	419,636
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>				
Net contributions and other changes	17,611	34,908	11,732	20,136
Net realized and unrealized gains (losses) on restricted investments	19,175	(5,581)	1,051	3,625
Restricted net assets acquired	-	12,138	-	-
Assets released from restriction for operations and capital purchases	(7,575)	(9,646)	(1,377)	(2,022)
Change in beneficial interests in foundations and trusts	58,165	(25,066)	413	18,480
Change in net assets with donor restrictions	87,376	6,753	11,819	40,219
Change in total net assets	1,302,987	261,694	175,741	459,855
Net assets, beginning of period	9,421,190	8,308,109	10,548,436	8,109,948
Net assets, end of period	\$ 10,724,177	\$ 8,569,803	\$ 10,724,177	\$ 8,569,803

See accompanying notes

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

Nine Months Ended September 30

	2021	2020
<b>OPERATING ACTIVITIES</b>		
Increase in total net assets	\$ 1,302,987	\$ 261,694
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	518,683	515,252
Change in beneficial interest in foundations and trusts	(58,165)	25,066
Restricted contributions and investment revenue	(36,786)	(29,327)
Restricted net assets acquired	-	(12,138)
Unrealized (gains) losses on investments	(203,049)	134,837
Realized gains on investments	(534,044)	(194,034)
Net changes in non-alternative investments	(502,414)	(454,791)
Inherent contribution	-	(164,523)
Changes in operating assets and liabilities:		
Accounts receivable	(299,149)	(108,454)
Other current assets	(260,616)	13,241
Accounts payable and accrued liabilities	218,557	240,999
Insurance reserves	108,633	215,962
Other current liabilities	534,740	1,052,564
Other noncurrent assets and liabilities	(525,735)	64,158
Other operating changes	(62,003)	(42,254)
Net cash provided by operating activities	201,639	1,518,252
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(533,413)	(587,966)
UPMC Enterprises non-controlling investments	(30,119)	(34,000)
Cash acquired through affiliations and divestitures	-	43,011
Net change in investments designated as nontrading	(16,563)	(63,650)
Net change in alternative investments	(113,219)	(53,781)
Net change in other assets	66,766	30,035
Net cash used in investing activities	(626,548)	(666,351)
<b>FINANCING ACTIVITIES</b>		
Repayments of long-term obligations	(716,697)	(1,340,531)
Borrowings of long-term obligations	761,187	3,069,657
Restricted contributions and investment income	36,786	29,327
Net cash provided by financing activities	81,276	1,758,453
Net change in cash and cash equivalents	(343,633)	2,610,354
Cash and cash equivalents, beginning of period	1,541,036	351,216
Cash and cash equivalents, end of period	\$ 1,197,403	\$ 2,961,570
<b>SUPPLEMENTAL INFORMATION</b>		
Finance lease obligations incurred to acquire assets	\$ 18,806	\$ 10,972
<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 generally rebounded to near pre-COVID-19 levels, UPMC and its subsidiaries have and expect to continue to experience an impact on 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 has been 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 through September 30, 2021. Approximately \$380,000 was recognized as other operating revenue for the year ended December 31, 2020. For the nine months ended September 30, 2021, an additional \$213,000 was recognized as UPMC continued to experience COVID-19 impacts. In the comparable nine-month period ended September 30, 2020, UPMC recognized \$318,000. The remaining amounts received will be evaluated for recognition in future periods as regulatory guidance further develops.

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") 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. 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 began in April 2021 and the recovery period is estimated to be approximately 18 months from that date. As of September 30, 2021, \$213,000 of the advance funding has been recouped by CMS. 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 currently has \$207,000 of deferred FICA payments as of September 30, 2021. Repayment to the federal government will be in equal payments in December 2021 and in December 2022.



# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 3. NEW ACCOUNTING PRONOUNCEMENTS

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

## 4. RECLASSIFICATIONS

In order to increase transparency within UPMC's consolidated financial statements, expenditures related to academic and research support provided to the University of Pittsburgh have been reclassified to a separate line item in the condensed consolidated statements of operations and changes in net assets. To conform to this presentation for the nine and three months ended September 30, 2021, reclassifications of \$170,557 and \$56,852, respectively, were made that reduced supplies, purchased services and general expense and increased academic and research support provided for the nine and three months ended September 30, 2020. As a result of these reclassifications, there was no impact to excess of revenues over expenses 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. Payment 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

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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 or nine months ended September 30, 2021 or 2020.

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 and nine months ended September 30, 2021 and 2020 is as follows:

Periods Ended September 30	Nine Months Ended		Three Months Ended	
	2021	2020	2021	2020
Commercial	40%	37%	41%	38%
Medicare	36%	39%	36%	40%
Medical Assistance	16%	17%	16%	14%
Self-pay/other	8%	7%	7%	8%
	100%	100%	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

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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 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 September 30, 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 September 30, 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 SEPTEMBER 30, 2021

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
<b>ASSETS</b>					
Fixed income	\$ 1,028,806	\$ 3,055,554	\$ -	\$ -	\$ 4,084,360
Domestic equity	1,186,503	12,503	-	-	1,199,006
International equity	868,390	-	-	-	868,390
Public real estate	123,315	-	-	-	123,315
Long/short equity	59,433	19,262	-	-	78,695
Absolute equity	43,463	-	-	-	43,463
Commodities	6,078	-	-	-	6,078
Derivative instruments	-	416	-	-	416
Securities on loan	423,381	-	-	-	423,381
Securities lending collateral	325,953	-	-	-	325,953
Alternative and other investments at NAV	-	-	-	1,750,230	1,750,230
Total assets measured at fair value on a recurring basis	\$ 4,065,322	\$ 3,087,735	\$ -	\$ 1,750,230	\$ 8,903,287
<b>LIABILITIES</b>					
Payable under securities lending agreement	\$ (325,953)	\$ -	\$ -	\$ -	\$ (325,953)
Derivative instruments	-	(4,555)	-	-	(4,555)
Total liabilities measured at fair value on a recurring basis	\$ (325,953)	\$ (4,555)	\$ -	\$ -	\$ (330,508)

## 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 \$9,774,321 and \$9,015,921 at September 30, 2021 and December 31, 2020, respectively. As of September 30, 2021 and December 31, 2020, respectively, UPMC had \$3,176,569 and \$3,050,333 of total cash and investments that are held by UPMC's 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 \$1,143,226 and \$857,235 of alternative investments accounted for under the equity method, which approximates fair value, at September 30, 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 (reported in other current assets and other current liabilities, respectively). Total collateral is required to have a market value between 102% and 105% of the market value of securities loaned. As of September 30, 2021 and December 31, 2020, respectively, securities loaned, of which UPMC maintains ownership, total \$423,381 and \$251,339, and total collateral (cash and noncash) received related to the securities loaned was \$437,511 and \$265,892.

In April 2021, UPMC issued tax exempt Series 2021A revenue bonds with a total par value of \$222,000, as well as Series 2021C notes totaling \$400,000, to fund capital projects and refund certain outstanding debts. In July 2021, UPMC issued on a forward delivery basis, tax-exempt Series 2021B bonds totaling \$56,073 to refund certain indebtedness. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of \$600,000. As of September 30, 2021, UPMC had approximately \$79,000 in letters of credit outstanding under the credit facility leaving \$521,000 available to fund operating and any capital needs, of which none was drawn. Additionally, UPMC has credit facilities of \$19,000 (decreased from \$150,000 to \$19,000 from August 15 to May 14) and \$50,000 with expiration dates in April 2022. Both of these credit facilities support the Insurance Services Division. As of September 30, 2021, there were no draws on either credit facility. To further support the Insurance Services Division, UPMC has two additional credit facilities with a capacity totaling \$400,000, with varying expiration dates through April 2022. As of September 30, 2021, there were no draws on either credit facility.

## 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

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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.

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

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
				Sep 30, 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 September 30, 2021 and December 31, 2020, which are not offset by counterparty or type of item hedged:

	Sep 30, 2021	Dec 31, 2020
Other assets	\$ 416	\$ 544
Long-term obligations	(4,555)	(6,562)
	\$ (4,139)	\$ (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 September 30, 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:

	Nine Months Ended September 30		Three Months Ended September 30	
	2021	2020	2021	2020
Service cost	\$ 130,515	\$ 114,930	\$ 43,505	\$ 38,310
Interest cost	57,489	56,628	19,163	18,876
Expected return on plan assets	(143,538)	(126,360)	(47,846)	(42,120)
Recognized net actuarial loss	21,210	20,016	7,070	6,672
Amortization of prior service credit	(3,942)	(3,942)	(1,314)	(1,314)
Net periodic pension cost	\$ 61,734	\$ 61,272	\$ 20,578	\$ 20,424

## 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:

	Sep 30, 2021	Dec 31, 2020
<b>OPERATING LEASES</b>		
Operating lease right-of-use assets	\$ 983,567	\$ 1,033,598
Other current liabilities	124,617	119,135
Operating lease liabilities	907,122	963,812
Total operating lease liabilities	\$ 1,031,739	\$ 1,082,947
<b>FINANCE LEASES</b>		
Property, plant and equipment, net	\$ 62,750	\$ 74,143
Other current liabilities	24,302	24,245
Other noncurrent liabilities	50,854	54,866
Total finance lease liabilities	\$ 75,156	\$ 79,111

Undiscounted maturities of lease liabilities were as follows:

For the Years Ended December 31	Operating Leases	Finance Leases
2021 (rest of year)	\$37,735	\$7,202
2022	143,500	22,955
2023	134,909	14,428
2024	118,590	6,836
2025	101,566	2,486
Thereafter	697,044	19,390

# 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. Fact discovery and expert discovery has concluded. Motions for summary judgment were filed on October 21, 2021, with responses due in November 2021. 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. On or about August 16, 2021, Plaintiffs dismissed their appeal and the case is now closed.

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. On or about September 2, 2021, the United States filed a Complaint in Partial Intervention against UPMC, UPP and a UPMC cardiothoracic surgeon, in the matter previously filed under seal in the United States District Court of the Western District of Pennsylvania as U.S. ex. rel. Jonathan D’Cunha, M.D. v. UPMC et al, alleging that the Defendants violated the False Claims Act by, inter alia, performing concurrent surgeries. UPMC plans to zealously defend against the United States’ claims. On November 1, 2021, Defendants moved to dismiss the United States’ claims, contending, among other things, that no federal regulations prohibit the surgeons from conducting concurrent or overlapping surgeries in the manner that they do. The American Hospital Association (“AHA”) and the Hospital & Healthsystem Association of Pennsylvania (“HAP”) filed a friend-of-the-court brief in support of the Defendants’ motion, which criticized the government’s attempt to impose its “own view of proper medicine” over hospitals, particularly when experts have deemed such surgeries to be safe and a practice that allows more patients to receive necessary health care. 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.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

On or about March 9, 2021, two plaintiffs filed a putative class action in the Allegheny County Court of Common Pleas against UPMC and a local law firm, Charles J. Hilton & Associates (“Hilton”), that UPMC had retained. The lawsuit alleges that a data breach at Hilton exposed the plaintiffs’ personal medical and financial information. On or about June 23, 2021, a different plaintiff filed a putative class action in the United States District Court for the Western District of Pennsylvania against UPMC, Hilton, and a third-party administrative services firm alleging that the alleged Hilton breach and two unrelated data breaches exposed the plaintiff’s personal medical and financial information. On or about September 9, 2021, the plaintiff in the federal court action voluntarily dismissed the action. UPMC intends to zealously defend against the allegations in the remaining state court action. The ultimate outcome and effect of that suit on UPMC’s condensed consolidated financial statements cannot be determined at this time.

## 12. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to September 30, 2021 through November 23, 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.