

# UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED JUNE 30, 2023



**UPMC**  
LIFE CHANGING MEDICINE

# UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED JUNE 30, 2023

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The following financial data as of June 30, 2023 and for the three and six-month periods ended June 30, 2023 and 2022 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, 2022 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.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

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 40 hospitals and 800 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, behavioral and at-home health 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 interim condensed consolidated financial statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

## CONSOLIDATED FINANCIAL HIGHLIGHTS

Financial Results for the Six Months Ended June 30	2023	2022
Operating revenues	\$ 13,815	\$ 12,497
Operating income	\$ 15	\$ 82
Operating margin %	0.1%	0.7%
Operating margin % (after income tax and interest expense)	(0.6)%	0.0%
Gain (loss) from investing and financing activities	\$ 276	\$ (866)
Excess of revenues over expenses (expenses over revenues) attributable to controlling interest	\$ 150	\$ (844)
Operating EBIDA	\$ 359	\$ 430
Capital expenditures	\$ 363	\$ 471
Reinvestment ratio	1.06	1.35

Selected Other Information as of	June 30, 2023	December 31, 2022
Total cash and investments	\$ 10,391	\$ 8,658
Unrestricted cash and investments	\$ 8,829	\$ 7,414
Unrestricted cash and investments over long-term debt	\$ 2,363	\$ 2,063
Days of cash on hand	118	109
Days in net accounts receivable	42	45
Average age of plant (in years)	10.7	10.4

Operating income decreased for the six months ended June 30, 2023 compared to prior year due primarily to increased utilization across several Insurance Services division products. UPMC's gain from investing and financing activities for the six months ended June 30, 2023 was \$276 million. UPMC continues to have a long-term perspective with regard to its investment activities. As of June 30, 2023, UPMC had \$10.4 billion of cash and investments, of which approximately \$3.4 billion was held by UPMC's regulated health and captive insurance companies. Increases in unrestricted cash and investments over long-term debt compared to December 31, 2022, are due primarily to positive investment returns in 2023.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

## BUSINESS HIGHLIGHTS

In June 2023, UPMC Children's Hospital of Pittsburgh was once again recognized as one of the best pediatric hospitals in the country, earning the eighth position on the 2023-24 *U.S. News & World Report* Honor Roll of Best Children's Hospitals. The Best Children's Hospitals rankings feature the top pediatric hospitals — among 250 nationally — that are ranked in each of 10 specialties. UPMC Children's is ranked for excellence in all pediatric specialty areas and among the top 10 in six specialties: cardiology and heart surgery (No. 8, tie); diabetes and endocrinology (No. 5); gastroenterology and GI surgery (No. 10); nephrology (No. 9); pulmonology and lung surgery (No. 9, tie); and urology (No. 9).

In April 2023, UPMC celebrated the opening of the much-anticipated UPMC Mercy Pavilion in Uptown Pittsburgh (the "Pavilion"), home to the UPMC Vision Institute and UPMC Rehabilitation Institute. Through patient-focused design and innovative technologies, the Pavilion is one of the first-of-its-kind in the nation — a place of life-changing care for people with routine and advanced vision and physical rehabilitation needs. The new \$510 million facility is designed to facilitate collaboration among world-renowned scientists, clinicians and researchers. The UPMC Vision Institute harnesses the clinical and research expertise of UPMC and the University of Pittsburgh Department of Ophthalmology to deliver comprehensive clinical care and conduct research to better understand, treat and prevent vision impairment and blindness. It offers ophthalmology services including specialized services for the cornea, retina, optic nerve, glaucoma, neuro-ophthalmology and orbital disorders. Additionally, the UPMC Vision Institute will house the UPMC Urgent Eye Care Clinic, an optical shop, and street lab — a state-of-the-art space for clinicians, researchers and patients to interact and model real-life situations where vision loss is a factor in a fully monitored and controlled environment. Its features focus on accessibility, reflecting the needs of patients receiving care at the Pavilion. The UPMC Rehabilitation Institute is one of the largest rehabilitation networks in the United States. UPMC's physiatrists and rehabilitation professionals offer tailored treatment programs to restore function and improve quality of life for patients, including specialized clinical services for brain injury, spinal cord injury, stroke and musculoskeletal pain. The Pavilion is designed to address each person's unique needs and conditions.

In April 2023, UPMC announced an additional \$10 million commitment to The Pittsburgh Promise, a scholarship program for students enrolled in Pittsburgh Public Schools and the largest program of its kind in the country. This is in addition to UPMC's founding gift of \$100 million in 2007 to establish The Pittsburgh Promise, a clear demonstration of UPMC's ongoing investment in the youth of Pittsburgh and in the future of the region. As of April 2023, the Pittsburgh Promise has reached a fundraising total of \$250 million, and since 2008, the program has invested over \$168 million in scholarships to send more than 11,000 urban youth on to a post-secondary education.

In June 2023, the Boards of Directors of both Washington Health System (WHS) and UPMC signed a non-binding letter of intent to negotiate an affiliation agreement between the two entities that would integrate WHS into the UPMC system. The primary focus of the affiliation is to ensure the residents of Washington and Greene Counties have local access to high-quality health care that is sustainable into the future. WHS and UPMC have already successfully collaborated via numerous clinical arrangements and joint ventures for the past several decades to deliver high-quality, patient-centered care locally. WHS Washington Hospital was also one of the original members of the UPMC Health Plan when it was launched 26 years ago. This affiliation with UPMC would help ensure continued high-quality care that patients in the WHS community have come to expect over the past several decades. The signing of the letter of intent means WHS and UPMC have agreed to conditions of affiliation. Over the next several months, both entities will engage in due diligence, research and discussions to work towards a definitive agreement. This affiliation is subject to customary regulatory filings, and WHS and UPMC leaders hope to complete the affiliation as soon as possible.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

The second-largest provider-owned health plan nationally, UPMC Health Plan's family of award-winning insurance products now serves over 4.5 million members. With its coveted Five Star Medicare rating from the Centers for Medicare and Medicare Services, UPMC *for Life* continued to add membership in the first two quarters of 2023, maintaining its position as a market share leader in western Pennsylvania for both its Medicare Advantage Individual and Special Needs Plans. Likewise, UPMC Community Health Choices, the Medicaid managed care organization that also provides home and community-based support, remained the market share leader in the Southwest and Northwest zones of Pennsylvania while also receiving the Pennsylvania Department of Human Services' Office of Long-Term Living's highest HEDIS quality scores in the history of the program. Reaffirming UPMC Health Plan's commitment to Pennsylvania's state-based exchange, Pennie, the Individual market product continues to offer coverage to over 98,000 members, with over 21,900 new members added during the first half of 2023. Workpartners, UPMC's analytics-driven benefits management services product, also grew considerably during the first half of 2023 now serving over 835,000 members – a 15 percent increase from mid-2022.

In May 2023, UPMC Health Plan received 13 Stevie Awards, including a Gold Stevie Award, for outstanding member services. The Stevies are the world's top honors for customer service across multiple businesses and reflect UPMC Health Plan's "concierges'" efforts to go the extra mile to serve members across all products.

The UPMC Health Plan Center for Social Impact continued its leadership in breaking down barriers to affordable, stable housing, launching a new partnership between two major Pittsburgh foundations, the Henry L. Hillman Foundation and The Heinz Endowments, and Cinnaire Lending, to work with UPMC *for You* to create the new \$11 million Preserve Affordability Pittsburgh private loan fund to help mission-minded developers acquire existing multifamily housing units and retain them as affordable housing for neighborhood residents.

In June 2023, UPMC Western Behavioral Health at Twin Lakes (in Somerset, Pa.) opened to increase access to substance abuse disorder treatment across the region. Behavioral health services was identified as a priority in UPMC's most recent Community Health Needs Assessment. The \$16 million expansion project includes the addition of a state-of-the-art 19,300-square-foot building and renovation of the existing facility. It is set to increase the number of beds by 60% and added new jobs to the region. The project was funded through substantial support from the Redevelopment Assistance Capital Program (RACP) and the Appalachian Regional Commission (ARC), as well as generous contributions from the Richard King Mellon Foundation and the Wheeler Family Charitable Foundation.

In June 2023, as part of its goal of transforming care for its patients through translational research, UPMC announced a collaboration with PharmaLogic Holdings Corporation to facilitate the development of novel radiopharmaceuticals for the diagnosis and treatment of cancer as well as cardiovascular and other diseases. The partners will jointly construct a world-class radiopharmaceutical research, production and distribution facility in Pittsburgh, expected to be one of the largest such centers in the United States, providing access to novel diagnostic and therapeutic agents not currently available to the communities surrounding UPMC, benefiting patients and clinicians alike. PharmaLogic will manage and co-fund a world-class Current Good Manufacturing Practice (cGMP) facility on the UPMC campus in the Oakland neighborhood of Pittsburgh. In addition to investing in the facility, UPMC will be the anchor clinical customer and provide strategic, research and operational support in a market expected to grow at double-digit rates through the end of the decade.

Construction continues on the new UPMC Presbyterian, which broke ground in June 2022. The new 17-story hospital, scheduled to be completed in 2026, will be home to 636 private patient rooms and premier people-focused clinical facilities where UPMC clinical teams and physician-scientists will deliver nationally renowned specialty care that includes transplant, cardiology and cardiac surgery, and neurology and neurosurgery. The spaces within the building are designed to embrace technology advances while supporting patients and staff in an attractive environment that matches the innovation and care provided by UPMC. Located in the Oakland neighborhood of the city, the new facility will be the largest health care building in Pittsburgh's history and is designed to serve the community for generations to come, dramatically changing the landscape of the Oakland neighborhood, Pittsburgh and Allegheny County.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Six Months Ended June 30, 2023

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue	\$ 7,186	\$ -	\$ (1,663)	\$ 5,523
Insurance enrollment revenue	-	7,145	-	7,145
Other revenue	768	422	(43)	1,147
<b>Total operating revenues</b>	<b>\$ 7,954</b>	<b>\$ 7,567</b>	<b>\$ (1,706)</b>	<b>\$ 13,815</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 4,497	\$ 311	\$ (38)	\$ 4,770
Insurance claims expense	-	6,637	(1,643)	4,994
Supplies, purchased services and general	3,210	507	(25)	3,692
Depreciation and amortization	341	3	-	344
<b>Total operating expenses</b>	<b>8,048</b>	<b>7,458</b>	<b>(1,706)</b>	<b>13,800</b>
<b>Operating (loss) income</b>	<b>\$ (94)</b>	<b>\$ 109</b>	<b>\$ -</b>	<b>\$ 15</b>
<b>Operating margin %</b>	<b>(1.2)%</b>	<b>1.4%</b>	<b>-</b>	<b>0.1%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>(2.5)%</b>	<b>1.3%</b>	<b>-</b>	<b>(0.6)%</b>
<b>Operating EBIDA</b>	<b>\$ 247</b>	<b>\$ 112</b>	<b>\$ -</b>	<b>\$ 359</b>
<b>Operating EBIDA %</b>	<b>3.1%</b>	<b>1.5%</b>	<b>-</b>	<b>2.6%</b>

Six Months Ended June 30, 2022

Revenues:				
Net patient service revenue	\$ 6,564	\$ -	\$ (1,479)	\$ 5,085
Insurance enrollment revenue	-	6,347	-	6,347
Other revenue	683	421	(39)	1,065
<b>Total operating revenues</b>	<b>\$ 7,247</b>	<b>\$ 6,768</b>	<b>\$ (1,518)</b>	<b>\$ 12,497</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 4,220	\$ 280	\$ (31)	\$ 4,469
Insurance claims expense	-	5,838	(1,448)	4,390
Supplies, purchased services and general	2,784	463	(39)	3,208
Depreciation and amortization	344	4	-	348
<b>Total operating expenses</b>	<b>7,348</b>	<b>6,585</b>	<b>(1,518)</b>	<b>12,415</b>
<b>Operating (loss) income</b>	<b>\$ (101)</b>	<b>\$ 183</b>	<b>\$ -</b>	<b>\$ 82</b>
<b>Operating margin %</b>	<b>(1.4)%</b>	<b>2.7%</b>	<b>-</b>	<b>0.7%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>(2.5)%</b>	<b>2.7%</b>	<b>-</b>	<b>- %</b>
<b>Operating EBIDA</b>	<b>\$ 243</b>	<b>\$ 187</b>	<b>\$ -</b>	<b>\$ 430</b>
<b>Operating EBIDA %</b>	<b>3.4%</b>	<b>2.8%</b>	<b>-</b>	<b>3.4%</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

## 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 approximately 5,200 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 Pennsylvania (including Erie), and central Pennsylvania (including Williamsport and Harrisburg), 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 activities, with locations across the globe, which extend UPMC's core mission and aim to bring new revenue streams into UPMC's domestic operations. In Italy, UPMC locations include ISMETT, a government-approved hospital for end-stage organ disease treatment and research, Salvator Mundi International Hospital in Rome and UPMC Cancer Centers in Rome, Sicily and Campania. In Ireland, UPMC has a network of four hospitals and two UPMC Hillman Cancer Centers across southeast Ireland, stretching from Cork to Dublin. Other UPMC international ventures include management services agreements in China and Kazakhstan.

Operating income for the Health Services division for the six months ended June 30, 2023 increased by \$7 million versus the same period in the prior year. The increase is primarily the result of increased patient volumes and equity earnings from UPMC's investment in CarepathRx. This was partially offset by lower COVID-19 related governmental funding and higher premium salaries, resulting from the current conditions in the labor markets.

## Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have more than 4.5 million members as of June 30, 2023. 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 WorkPartners provides fully insured workers' compensation, 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 six months ended June 30, 2023 declined by \$74 million compared to the six months ended June 30, 2022. The decrease in operating income is a result of higher utilization across several UPMC product lines.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

## 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 both support UPMC's core mission and help stimulate the economy within the communities we serve.

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. UPMC Enterprises' results are classified as investing and financing activity in the 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. Due to the nature of UPMC Enterprises' investment activity, financial results can fluctuate between periods.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

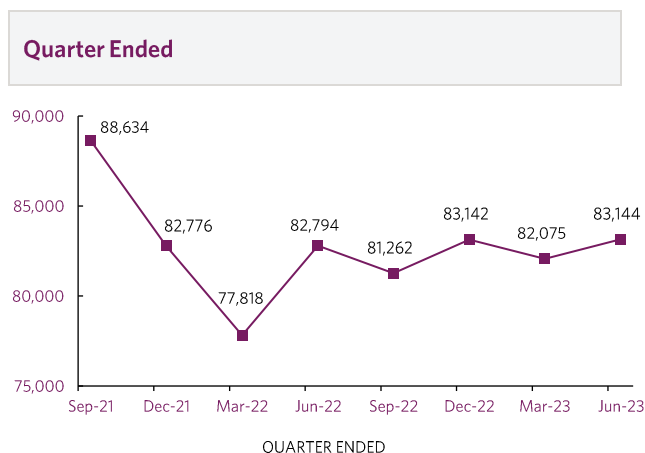
PERIOD ENDED JUNE 30, 2023

## 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 six months ended June 30, 2023, increased 2% compared to the same period in 2022.

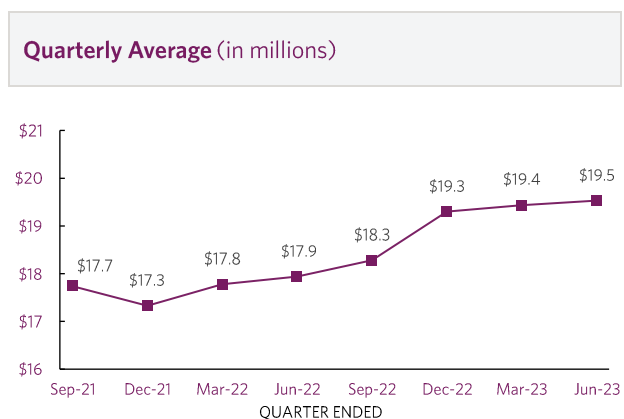
For the Six Months Ended June 30			
(in thousands)	2023	2022	Change
Academic	53.9	54.0	- %
Community	23.7	23.1	3%
Regional	87.6	84.2	4%
<b>Total</b>	<b>165.2</b>	<b>161.3</b>	<b>2%</b>



### Outpatient Revenue per Workday

UPMC's outpatient activity for the six months ended June 30, 2023, as measured by average revenue per workday, increased 9% compared to the same period in 2022. As new programs are implemented and the movement of formerly inpatient services to outpatient venues continues, ambulatory patient volumes and the corresponding outpatient revenue per workday continue to increase. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Six Months Ended June 30			
(in thousands)	2023	2022	Change
Academic	\$ 7,220	\$ 6,557	10%
Community	1,968	1,798	9%
Regional	10,294	9,504	8%
<b>Total</b>	<b>\$ 19,482</b>	<b>\$ 17,859</b>	<b>9%</b>



# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

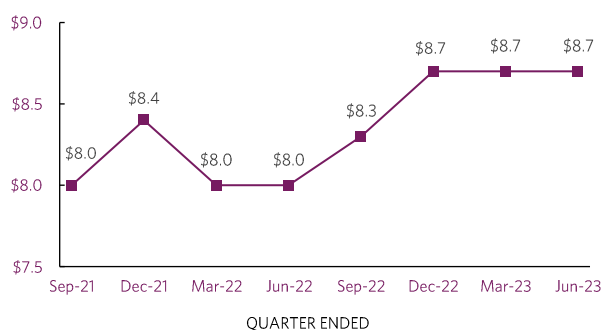
## REVENUE METRICS – HEALTH SERVICES (CONTINUED)

### Physician Service Revenue per Weekday

UPMC's physician activity for the six months ended June 30, 2023, as measured by average revenue per weekday, increased 9% from the comparable period in 2022. Physician services activity is measured on a weekday basis.

For the Six Months Ended June 30			
(in thousands)	2023	2022	Change
<b>Academic</b>	\$ 3,756	\$ 3,459	9%
<b>Community</b>	1,888	1,807	4%
<b>Regional</b>	3,088	2,711	14%
<b>Total</b>	\$ 8,732	\$ 7,977	9%

Quarterly Average (in millions)



### Sources of Patient Service Revenue

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

	Six Months Ended June 30	
	2023	2022
<b>Medicare</b>	48%	48%
<b>Medical Assistance</b>	18%	17%
<b>Commercial Insurers</b>	16%	16%
<b>UPMC Insurance Services Commercial</b>	11%	11%
<b>Self-pay/Other</b>	7%	8%
<b>Total</b>	100%	100%

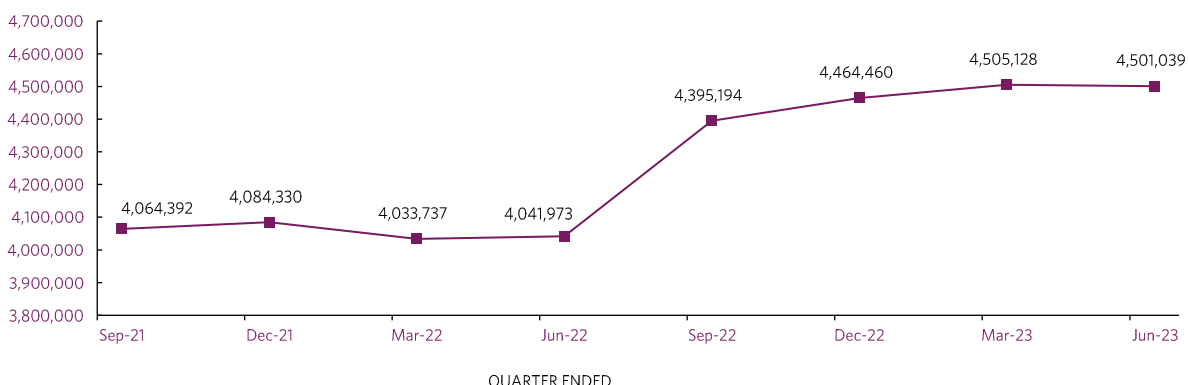
# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

## OPERATING METRICS - INSURANCE SERVICES

### Membership

Membership in the UPMC Insurance Services division was 4,501,039 as of June 30, 2023, an 11% increase versus June 30, 2022. The Insurance Services Division growth in enrollment compared to prior year was primarily attributable to the expansion of Behavioral Health and Medical Assistance (Medicaid) products into new regions of eastern Pennsylvania.

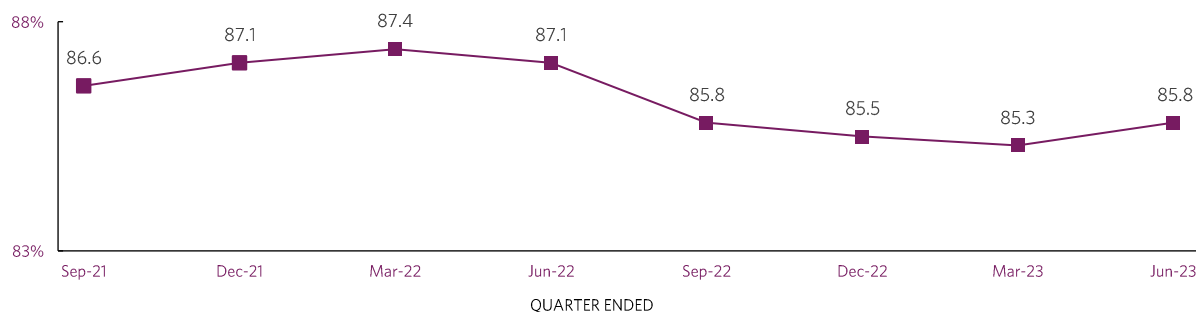


As of	June 30, 2023	June 30, 2022
Commercial Health	568,229	599,401
Medicare	207,714	199,789
Medical Assistance	751,510	587,307
Sub-Total Physical Health Products	1,527,453	1,386,497
Community HealthChoices	144,597	136,014
Behavioral Health	1,501,802	1,306,512
Sub-Total Health Products	3,173,852	2,829,023
Workpartners	837,810	727,377
Ancillary Products	473,096	471,489
Third-Party Administration	16,281	14,084
<b>Total Membership</b>	<b>4,501,039</b>	<b>4,041,973</b>

### Medical Expense Ratio

UPMC Insurance Services' medical expense ratio for the trailing twelve months has increased to 85.8% as of June 30, 2023. The chart below is revised 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 JUNE 30, 2023

## KEY FINANCIAL INDICATORS

(Dollars in millions)

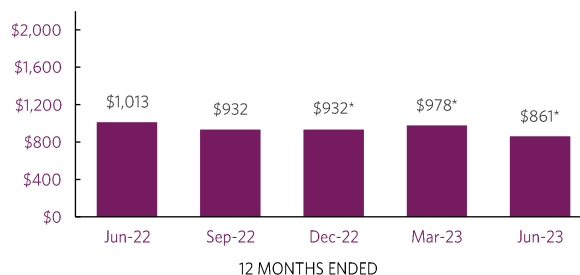
### Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the six months ended June 30, 2023 decreased \$71 million compared to the six months ended June 30, 2022.

For the Six Months Ended June 30			
(in millions)	2023	2022	Change
Operating Income	\$ 15	\$ 82	(82)%
Depreciation and Amortization	344	348	(1)%
<b>Operating EBIDA</b>	<b>\$ 359</b>	<b>\$ 430</b>	<b>(17)%</b>

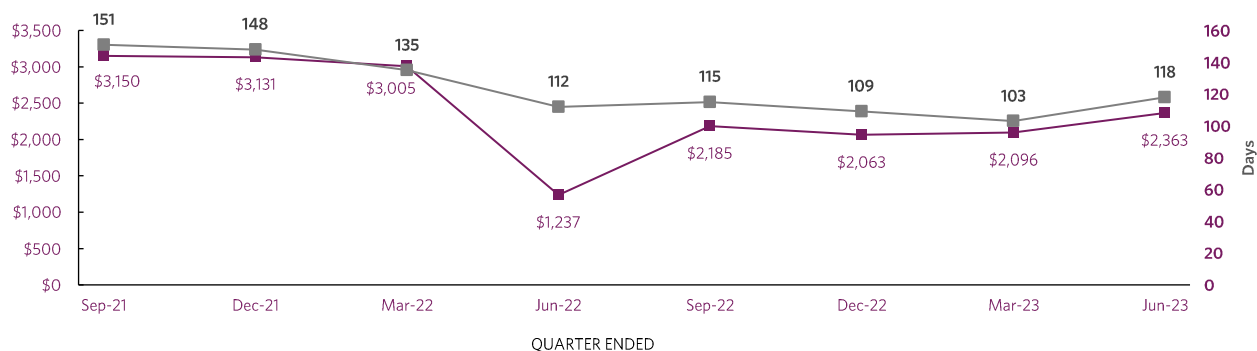
\*Excludes \$76 million of lease impairment

### Trailing Twelve Months Operating EBIDA



### Unrestricted Cash and Investments over Long Term Debt and Days Cash on Hand

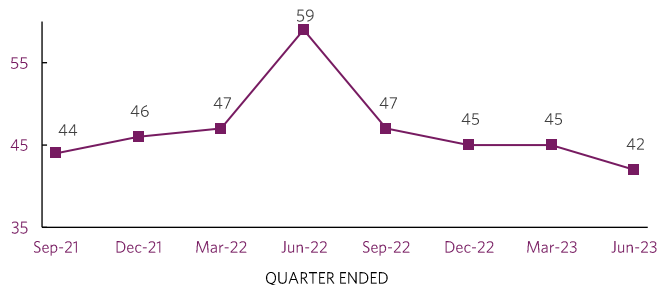
As of June 30, 2023, unrestricted cash and investments over long term debt increased \$300 million compared to December 31, 2022 due primarily to positive investment returns in 2023.



### Days in Net Accounts Receivable

Days in Accounts Receivable at June 30, 2023 and December 31, 2022 were 42 and 45, respectively. For the quarter ended June 30, 2022, the Commonwealth of Pennsylvania delayed certain payments due to managed care companies throughout Pennsylvania. This delay did not occur for the quarter ended June 30, 2023.

By Receivable	June 2023 Balance	Days	
		Jun 30, 2023	Dec 31, 2022
Patient	\$ 1,505	47	47
Insurance and other	1,724	38	44
<b>Consolidated</b>	<b>\$ 3,229</b>	<b>42</b>	<b>45</b>



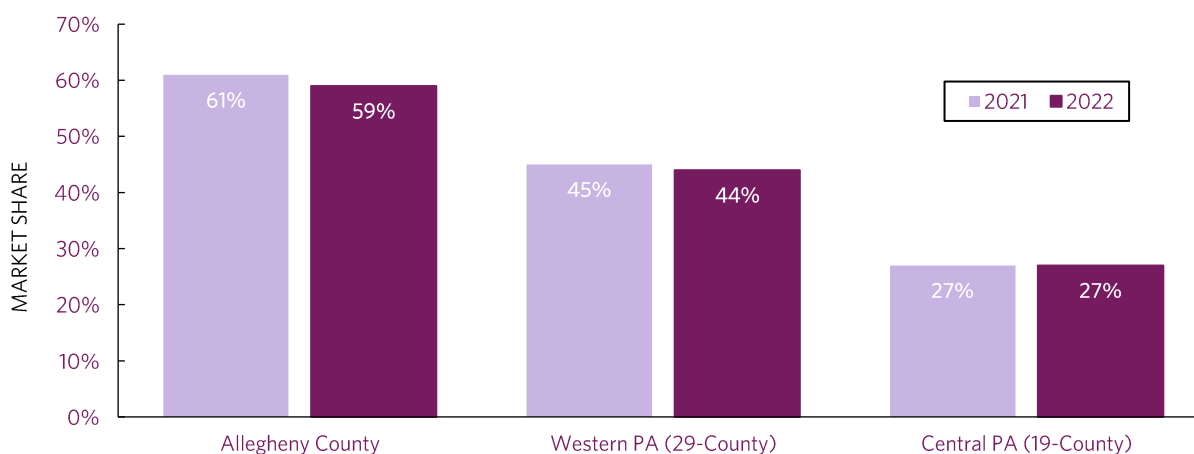
# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

## MARKET SHARE

The chart below shows the change in UPMC's estimated inpatient market share for calendar years 2021 and 2022 by service area.<sup>(1)</sup> This is the most recent market share data currently available.

### UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE AS OF DECEMBER 31<sup>(2)</sup>



(1) 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.  
(2) Excludes psychiatry and substance abuse discharges.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

## ASSET AND LIABILITY MANAGEMENT

For the six months ended June 30, 2023, UPMC's core Investment Portfolio managed by Treasury returned 4.9%. As of June 30, 2023, the Investment Portfolio utilized 175 ongoing external investment managers including 44 traditional managers, 18 hedge fund managers and 113 private capital managers. The Investment Portfolio is also invested with an additional 32 legacy private capital and hedge fund managers. UPMC's Investment Portfolio has a long-term perspective and has generated annualized returns of 5.4%, 6.5% and 5.0% for the trailing one-, three- and five-year periods. As of June 30, 2023, 70% of UPMC's Investment Portfolio could be liquidated within three days.

UPMC's cost of capital during the six-month period ended June 30, 2023 was 3.3%. 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 June 30, 2023, the interest rates on UPMC's long-term debt were approximately 87% fixed and 13% variable after giving effect to derivative contracts. Interest cost for the variable rate debt for the period averaged 4.1%. The interest cost for the fixed rate debt was 3.1%. UPMC's primary credit facility, which expires in May 2028, has a borrowing limit of \$1 billion. As of June 30, 2023, UPMC had approximately \$134 million in letters of credit outstanding under the credit facility leaving \$866 million available to fund operating and capital needs, none of which was drawn.

In support of the Insurance Services Division, UPMC has credit facilities of \$350 million and \$250 million, the latter of which temporarily decreases each year to \$25 million from September 1<sup>st</sup> to April 30<sup>th</sup>. The credit facilities expire in May 2026 and May 2027, respectively. As of June 30, 2023, these credit facilities were undrawn.

During the six months ended June 30, 2023, UPMC issued the tax-exempt Series 2023A, 2023B, 2023C, and 2023D bonds, as well as the taxable Series 2023 bonds in the amounts of \$445 million, \$89 million, \$36 million, \$250 million, and \$800 million, respectively. These bonds refunded certain indebtedness, funded capital projects and supported working capital. Details of the offerings can be found in the official statements for each issue. Additionally, UPMC issued bonds of \$164 million relating to its international operations. Lastly, UPMC amended its existing primary revolving credit facility to provide a maximum available amount thereunder to \$1 billion.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2023

The table below compares reported Investing and Financing Activity for the six months ended June 30, 2023 and 2022 by type.

## Investing and Financing Activity by Type

Six Months Ended June 30	2023	2022
<i>(in thousands)</i>		
Realized gain (loss)	\$ 173,191	\$ (22,401)
Interest and dividends, net of fees	74,898	55,454
Realized investment gain	\$ 248,089	\$ 33,053
Unrealized (loss) gain on derivative contracts	(1,711)	1,684
Other unrealized gain (loss)	148,176	(761,526)
Investment gain (loss)	\$ 394,554	\$ (726,789)
Interest expense	(93,893)	(77,466)
Gain on extinguishment of debt	\$ 1,274	\$ 14,410
UPMC Enterprises activity	(25,817)	(76,047)
<b>Gain (loss) from investing and financing activities</b>	<b>\$ 276,118</b>	<b>\$ (865,892)</b>

## Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of June 30, 2023, UPMC had approximately \$1.7 billion of cash and cash equivalents.

Operating EBIDA was \$359 million for the six months ended June 30, 2023, compared to \$430 million for the six months ended June 30, 2022. Key uses of cash for the six months ended June 30, 2023 include consideration paid to acquire the Sports Surgery Clinic of approximately \$247 million and capital expenditures of approximately \$346 million (excluding any capital acquired through lease arrangements). Major capital projects included construction and improvements at UPMC Central PA, UPMC North Central PA, UPMC Mercy and UPMC Presbyterian 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 JUNE 30, 2023

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, rehabilitation and skilled nursing patient activity for the six months ended June 30, 2023 and 2022.

	Six Months Ended June 30	
	2023	2022
Licensed Beds	8,754	8,782
<b>BEDS IN SERVICE</b>		
Medical-Surgical	5,109	5,099
Psychiatric	430	430
Rehabilitation	243	249
Skilled Nursing	1,542	1,539
Total Beds in Service	7,324	7,317
<b>PATIENT DAYS</b>		
Medical-Surgical	672,098	678,684
Psychiatric	55,091	55,110
Rehabilitation	32,604	32,992
Skilled Nursing	216,147	200,329
Total Patient Days	975,940	967,115
Average Daily Census	5,392	5,343
Observation Days	83,497	80,480
Obs Average Daily Census	461	445
<b>ADMISSIONS AND OBSERVATION CASES</b>		
Medical-Surgical	117,795	116,264
Observation Cases	47,424	45,062
Subtotal	165,219	161,326
Psychiatric	5,131	4,570
Rehabilitation	2,206	2,133
Skilled Nursing	2,307	1,787
Total Admissions and Observation Cases	174,863	169,816
Overall Occupancy	80%	79%
<b>AVERAGE LENGTH OF STAY</b>		
Medical-Surgical	5.7	5.8
Psychiatric	10.7	12.1
Rehabilitation	14.8	15.5
Skilled Nursing	93.7	112.1
Overall Average Length of Stay	7.7	7.8
Emergency Room Visits	506,365	485,911
<b>TRANSPLANTS (DOMESTIC AND INTERNATIONAL)</b>		
Liver	142	108
Kidney	166	157
All Other	158	136
Total	466	401
<b>OTHER POST-ACUTE METRICS</b>		
Home Health Visits	256,345	313,268
Hospice Care Days	116,554	116,480
Outpatient Rehab Visits	346,682	349,066

# OUTSTANDING DEBT

PERIOD ENDED JUNE 30, 2023

(DOLLARS IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$ 43,611
	UPMC	2007A	30,427
	UPMC	2017D	398,024
	UPMC	2019A	736,375
	UPMC	2021B	52,148
Monroeville Finance Authority	UPMC	2012	59,479
	UPMC	2013B	1,725
	UPMC	2014B	42,687
	UPMC	2022B	186,812
	UPMC	2023C	40,807
Pennsylvania Economic Development Financing Authority	UPMC	2013A	2,865
	UPMC	2014A	250,751
	UPMC	2015B	110,372
	UPMC	2016	210,094
	UPMC	2017A	410,163
	UPMC	2017B	88,572
	UPMC	2017C	134,004
	UPMC	2020A	267,403
	UPMC	2021A	252,584
	UPMC	2022A	225,644
	UPMC	2023A	473,164
	UPMC	2023B	95,315
Tioga County Industrial Development Authority	Laurel Health System	2010	5,350
	Laurel Health System	2011	3,705
Dauphin County General Authority	Pinnacle Health System	2016A	90,527
	Pinnacle Health System	2016B	78,130
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	3,535
	Hanover Hospital	2015	21,023
Potter County Hospital Authority	UPMC	2018A	10,225
Somerset County Hospital Authority	Somerset Hospital	2009	276
Maryland Health and Higher Educational Facilities Authority	UPMC	2020B	193,814
None	UPMC	2020D	349,790
	UPMC	2020 Term Loan	299,939
	UPMC	2021C	399,587
	UPMC	2023	795,234
	Somerset Management Services	2013	1,356
	Various	Financing Leases & Loans	273,463
	Swap Liabilities	241	
<b>Total UPMC Outstanding Debt</b>			<b>\$ 6,888,232</b>

Includes original issue discount and premium, Deferred Financing Costs and other.

Source: UPMC Records

# DEBT COVENANT CALCULATIONS

PERIOD ENDED JUNE 30, 2023

## DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

	Trailing Twelve-Month Period Ended June 30, 2023	
Excess of expenses over revenues	\$	(39,077)
<b>ADJUSTED BY:</b>		
Net Unrealized Gains during Period <sup>(1)</sup>		(66,201)
Depreciation and Amortization <sup>(1)</sup>		689,939
Gain on Extinguishment of Debt <sup>(1)</sup>		(1,273)
Lease Impairment - Facilities <sup>(1)</sup>		75,784
Lease Impairment Realization - Facilities		(5,526)
Realized Investment Impairments <sup>(2)</sup>		(14,582)
Interest Expense <sup>(3)</sup>		172,224
Revenues Available for Debt Service	\$	811,288
Historical Debt Service Requirements - 2007 MTI	\$	376,097
Debt Service Coverage Ratio - 2007 MTI		2.16X
Historical Debt Service Requirements - All Debt and Finance Leases	\$	417,875
Debt Service Coverage Ratio - All Debt and Finance Leases		1.94X

## LIQUIDITY RATIO AS OF JUNE 30, 2023

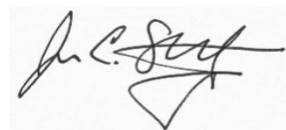
Unrestricted Cash and Investments	\$	8,829,359
Master Trust Indenture Debt		6,343,782
<b>Unrestricted Cash to MTI Debt</b>		<b>1.39</b>

<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 June 30, 2023, 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 JUNE 30, 2023



Ernst & Young LLP  
2100 One PPG Place  
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## Review Report of Independent Auditors

To the Board of Directors of UPMC

### Results of Review of Interim Financial Information

We have reviewed the condensed consolidated financial statements of UPMC (the Company), which comprise the condensed consolidated balance sheet as of June 30, 2023, and the related condensed consolidated statements of operations and changes in net assets for the three-month and six-month periods ended June 30, 2023 and 2022, and cash flows for the six-month periods end June 30, 2023 and 2022, and the related notes (collectively referred to as the “interim financial information”).

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

### Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of condensed interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of condensed interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

### Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the condensed interim financial information in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

### Report on Condensed Balance Sheet as of December 31, 2022

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 as of December 31, 2022, 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 February 27, 2023. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

August 24, 2023

# CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(DOLLARS IN THOUSANDS)

As of  
June 30, 2023    December 31, 2022

## CURRENT ASSETS

Cash and cash equivalents	\$ 1,711,178	\$ 953,980
Patient accounts receivable	1,504,696	1,418,566
Insurance and other receivables	1,723,870	1,933,177
Other current assets	676,244	588,555
<b>Total current assets</b>	<b>5,615,988</b>	<b>4,894,278</b>
Board-designated, restricted, trustee and other investments	8,680,093	7,704,484
Beneficial interests in foundations and trusts	690,620	667,380
Net property, buildings and equipment	6,649,919	6,519,892
Operating lease right-of-use assets	830,841	796,886
Other assets	877,829	744,434
<b>Total assets</b>	<b>\$ 23,345,290</b>	<b>\$ 21,327,354</b>

## CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 812,675	\$ 834,097
Accrued salaries and related benefits	1,064,387	1,024,110
Current portion of insurance reserves	1,221,793	1,155,133
Current portion of long-term obligations	180,758	369,443
Other current liabilities	1,337,440	939,010
<b>Total current liabilities</b>	<b>4,617,053</b>	<b>4,321,793</b>
Long-term obligations	6,707,474	5,152,164
Long-term insurance reserves	477,143	458,285
Operating lease noncurrent liabilities	792,534	770,766
Other noncurrent liabilities	630,432	717,464
<b>Total liabilities</b>	<b>13,224,636</b>	<b>11,420,472</b>
Net assets without donor restrictions	8,914,102	8,737,069
Net assets with donor restrictions	1,206,552	1,169,813
<b>Total net assets</b>	<b>10,120,654</b>	<b>9,906,882</b>
<b>Total liabilities and net assets</b>	<b>\$ 23,345,290</b>	<b>\$ 21,327,354</b>

See accompanying notes

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

(DOLLARS IN THOUSANDS)

	Six Months Ended June 30		Three Months Ended June 30	
	2023	2022	2023	2022
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>				
Net patient service revenue	\$ 5,522,571	\$ 5,085,440	\$ 2,818,260	\$ 2,630,859
Insurance enrollment revenue	7,145,310	6,346,978	3,606,711	3,213,049
Other revenue	1,147,455	1,064,984	524,808	554,122
Total operating revenues	13,815,336	12,497,402	6,949,779	6,398,030
Salaries, professional fees and employee benefits	4,770,102	4,468,961	2,406,349	2,294,584
Insurance claims expense	4,994,463	4,390,090	2,552,876	2,230,978
Supplies, purchased services and general	3,691,928	3,208,357	1,902,082	1,666,100
Depreciation and amortization	344,312	348,130	174,311	174,888
Total operating expenses	13,800,805	12,415,538	7,035,618	6,366,550
Operating income (loss)	14,531	81,864	(85,839)	31,480
Academic and research support provided	(120,750)	(120,342)	(60,375)	(60,342)
Income tax and other non-operating expenses	1,169	58,671	(817)	29,758
After-tax (loss) income	\$ (105,050)	\$ 20,193	\$ (147,031)	\$ 896
Investing and financing activities:				
Investment gain (loss)	394,554	(726,789)	151,433	(558,575)
Interest expense	(93,893)	(77,466)	(51,503)	(38,604)
Gain on extinguishment of debt	1,274	14,410	1,274	14,450
UPMC Enterprises activity:				
Portfolio company revenue and net gains from sales	87,840	21,324	70,157	9,413
Portfolio company and research and development expense	(113,657)	(97,371)	(63,726)	(50,688)
Gain (loss) from investing and financing activities	276,118	(865,892)	107,635	(624,004)
Excess of revenues over expenses (expenses over revenues)	171,068	(845,699)	(39,396)	(623,108)
Excess of revenues over expenses (expenses over revenues) attributable to noncontrolling interest	21,282	(1,574)	1,907	(18)
Excess of revenues over expenses (expenses over revenues) attributable to controlling interest	149,786	(844,125)	(41,303)	(623,090)
Net change in pension liability and other	27,247	(11,257)	31,068	(6,103)
Change in net assets without donor restrictions	177,033	(855,382)	(10,235)	(629,193)
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>				
Change in beneficial interests in foundations and trusts	23,240	(87,149)	5,293	(60,304)
Other changes in net assets with donor restrictions	13,499	(18,422)	7,332	(12,149)
Change in net assets with donor restrictions	36,739	(105,571)	12,625	(72,453)
Change in total net assets	213,772	(960,953)	2,390	(701,646)
Net assets, beginning of period	9,906,882	11,278,360	10,118,264	11,019,053
Net assets, end of period	\$ 10,120,654	\$ 10,317,407	\$ 10,120,654	\$ 10,317,407

See accompanying notes

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

	Six Months Ended June 30	
	2023	2022
<b>OPERATING ACTIVITIES</b>		
Increase (decrease) in total net assets	\$ 213,772	\$ (960,953)
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	344,312	348,130
Change in beneficial interest in foundations and trusts	(23,240)	87,149
Unrealized (gains) losses on investments	(148,176)	761,526
Realized (gains) on investments	(173,191)	(33,053)
Net changes in non-alternative investments	(625,162)	734,201
Changes in operating assets and liabilities:		
Accounts receivable	123,177	(1,132,429)
Other current assets	(81,876)	(21,907)
Accounts payable and accrued liabilities	18,855	(31,137)
Insurance reserves	85,518	85,906
Other current liabilities	398,430	(333,930)
Other noncurrent assets and liabilities	(65,264)	(52,663)
Other operating changes	(29,314)	(26,882)
Net cash provided by (used in) operating activities	37,841	(576,042)
<b>INVESTING ACTIVITIES</b>		
Purchase of property, buildings and equipment	(345,980)	(453,931)
UPMC Enterprises investments in non-consolidated entities	(32,684)	(15,000)
Consideration paid for acquisitions	(247,626)	-
Net change in investments designated as nontrading	(16,820)	(65,666)
Net change in alternative investments	18,713	3,919
Other investing changes	(13,410)	84,129
Net cash used in investing activities	(637,807)	(446,549)
<b>FINANCING ACTIVITIES</b>		
Repayments of long-term obligations	(462,352)	(415,796)
Borrowings of long-term obligations	1,828,996	419,720
Borrowings on lines of credit	-	600,000
Other financing changes	(9,480)	(9,179)
Net cash provided by financing activities	1,357,164	594,745
Net change in cash and cash equivalents	757,198	(427,846)
Cash and cash equivalents, beginning of period	953,980	930,376
Cash and cash equivalents, end of period	\$ 1,711,178	\$ 502,530
<b>SUPPLEMENTAL INFORMATION</b>		
Finance lease obligations incurred to acquire assets	\$ 17,489	\$ 16,631

See accompanying notes



# 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 (the "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 of America ("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, 2022.

## 2. SIGNIFICANT TRANSACTIONS

In February 2023, CarepathRx, an equity investment of UPMC Chartwell, executed an agreement where a portion of its business was sold to a third party. UPMC Chartwell's equity investment in CarepathRx resulted in a gain of \$164,183 in other revenues, of which approximately \$20,000 was attributed to noncontrolling interest, in its consolidated statement of operations and changes in net assets for the three and six months ended June 30, 2023, in accordance with ASC 810, *Consolidation*.

In March 2023, UPMC acquired the Sports Surgery Clinic ("SSC") in Dublin, Ireland. As UPMC's fourth hospital in Ireland, the transaction is intended to further UPMC's commitment to clinical excellence in this region of the world. As a result of the acquisition, UPMC acquired approximately \$106,000 of total assets, consisting of \$100,000 of property, plant and equipment and \$6,000 of other assets. Total consideration paid by UPMC approximated \$247,000 and resulted in approximately \$141,000 of goodwill in the consolidated balance sheet as of June 30, 2023. UPMC applies the guidance set forth in ASC 805 Business Combinations for affiliations and acquisitions and as such will continue to assess throughout the remainder of the year the fair value, as of the acquisition date, of any assets and liabilities acquired.

## 3. NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2023, UPMC adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to certain qualifying insurance receivables and reinsurance recoveries and receivables. This accounting pronouncement did not have a material impact on the condensed consolidating financial statements.

## 4. 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

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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 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 six months ended June 30, 2023 or 2022.

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, deductibles and copayments). 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 one of UPMC's primary sources 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.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

The composition of net patient service revenue for the six months ended June 30, 2023 and 2022 is as follows:

Periods Ended June 30	Six Months Ended		Three Months Ended	
	2023	2022	2023	2022
Commercial	37%	37%	36%	36%
Medicare	40%	39%	39%	38%
Medical Assistance	17%	17%	18%	20%
Self-pay/other	6%	7%	7%	6%
	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, unless otherwise disclosed. 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 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. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collectability is probable.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 5. FAIR VALUE MEASUREMENTS

As of June 30, 2023 and December 31, 2022, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include 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 June 30, 2023 and December 31, 2022. 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 JUNE 30, 2023

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
<b>ASSETS</b>					
Fixed income	\$ 476,522	\$ 2,963,702	\$ -	\$ -	\$ 3,440,224
Domestic equity	1,225,226	10,173	-	-	1,235,399
International equity	789,445	-	-	-	789,445
Public real estate	109,122	-	-	-	109,122
Long/short equity	28,309	121,379	-	-	149,688
Absolute equity	(845)	57,661	-	-	56,816
Securities on loan	179,101	-	-	-	179,101
Securities lending collateral	124,926	-	-	-	124,926
Alternative and other investments at NAV	-	-	-	1,559,542	1,559,542
Total assets measured at fair value on a recurring basis	\$ 2,931,806	\$ 3,152,915	\$ -	\$ 1,559,542	\$ 7,644,263
<b>LIABILITIES</b>					
Payable under securities lending agreement	\$ (124,296)	\$ -	\$ -	\$ -	\$ (124,296)
Derivative instruments	-	(241)	-	-	(241)
Total liabilities measured at fair value on a recurring basis	\$ (124,296)	\$ (241)	\$ -	\$ -	\$ (124,537)

## FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2022

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
<b>ASSETS</b>					
Fixed income	\$ 853,228	\$ 1,723,814	\$ -	\$ -	\$ 2,577,042
Domestic equity	1,275,130	8,700	-	-	1,283,830
International equity	696,429	541	-	-	696,970
Public real estate	103,870	-	-	-	103,870
Long/short equity	61,389	13,657	-	-	75,046
Absolute equity	51,241	-	-	-	51,241
Derivative instruments	-	-	-	-	-
Securities on loan	203,429	-	-	-	203,429
Securities lending collateral	116,000	-	-	-	116,000
Alternative and other investments at NAV	-	-	-	1,556,937	1,556,937
Total assets measured at fair value on a recurring basis	\$ 3,360,716	\$ 1,746,712	\$ -	\$ 1,556,937	\$ 6,664,365
<b>LIABILITIES</b>					
Payable under securities lending agreement	\$ (116,000)	\$ -	\$ -	\$ -	\$ (116,000)
Derivative instruments	-	(732)	-	-	(732)
Total liabilities measured at fair value on a recurring basis	\$ (116,000)	\$ (732)	\$ -	\$ -	\$ (116,732)

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 6. 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 (loss) gain 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 (loss) gain 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 \$9,230,515 and \$7,502,345 at June 30, 2023 and December 31, 2022, respectively. As of June 30, 2023 and December 31, 2022, respectively, UPMC had \$3,386,661 and \$3,001,542 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 \$1,160,756 and \$1,156,119 of alternative investments accounted for under the equity method, which approximates fair value, at June 30, 2023 and December 31, 2022, 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 June 30, 2023 and December 31, 2022, respectively, securities loaned, of which UPMC maintains ownership, total \$179,101 and \$203,429, and total collateral (cash and noncash) received related to the securities loaned was \$186,186 and \$212,925.

During the six months ended June 30, 2023, UPMC issued the tax-exempt Series 2023A, 2023B, 2023C and 2023D bonds, as well as the taxable Series 2023 bonds in the amounts of \$445,230, \$89,275, \$36,815, \$250,000 and \$800,000, respectively. These bonds refund certain indebtedness, fund capital projects and support working capital. Additionally, UPMC issued bonds of \$164,110 relating to its international operations. Lastly, UPMC amended its existing primary revolving credit facility to provide a maximum available amount thereunder to \$1,000,000.

## 7. 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. 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 are not offset by counterparty or type of item hedged.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

UPMC maintains interest rate swap programs on certain of its debt in order to manage its interest rate risk. As of June 30, 2023 and December 31, 2022, UPMC is party to a floating-to-fixed interest rate swap where UPMC receives 68% of one-month LIBOR and pays a fixed rate of 3.60% on a notional of \$37,935. As of June 30, 2023 and December 31, 2022, UPMC is also party to a basis swap where UPMC receives 67% of three-month LIBOR plus .3217% and pays SIFMA on a notional of \$30,525 and \$38,450, respectively. The aforementioned agreements are scheduled to mature in 2025 and 2037, respectively, and are carried as a liability with a combined market value of (\$241) as of June 30, 2023 and (\$732) as of December 31, 2022.

## 8. 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 activities on the condensed consolidated statements of operations and changes in net assets, for the Plans are as follows:

	Six Months Ended June 30		Three Months Ended June 30	
	2023	2022	2023	2022
Service cost	\$ 79,062	\$ 89,770	\$ 39,531	\$ 44,885
Interest cost	74,462	44,840	37,231	22,420
Expected return on plan assets	(89,532)	(104,188)	(44,766)	(52,094)
Recognized net actuarial loss	7,292	-	3,646	-
Amortization of prior service credit	(2,628)	(2,628)	(1,314)	(1,314)
Net periodic pension cost	\$ 68,656	\$ 27,794	\$ 34,328	\$ 13,897

## 9. 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:

	Jun 30, 2023	Dec 31, 2022
<b>OPERATING LEASES</b>		
Operating lease right-of-use assets	\$ 830,841	\$ 796,886
Other current liabilities	153,713	148,940
Operating lease noncurrent liabilities	792,534	770,766
Total operating lease liabilities	\$ 946,247	\$ 919,706
<b>FINANCE LEASES</b>		
Property, plant and equipment, net	\$ 59,379	\$ 60,853
Current portion of long-term obligations	21,928	22,673
Long-term obligations	43,411	46,965
Total finance lease liabilities	\$ 65,339	\$ 69,638

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Undiscounted maturities of lease liabilities were as follows:

For the Six Months Ended June 30	Operating Leases	Finance Leases
2023 (rest of year)	\$83,324	\$12,684
2024	149,082	18,145
2025	127,701	11,309
2026	113,808	6,812
2027	91,117	2,423
Thereafter	435,667	15,917

## 10. 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 and DOJ reached a settlement for an immaterial amount and UPMC admitted no liability in settling the claims. The DOJ declined to intervene in the remaining allegations of the Relators’ lawsuit. 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 June 29, 2022, the Court denied UPMC’s motion for summary judgment. Trial is scheduled for November 6 – November 22, 2023. The outcome and ultimate effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On or about August 30, 2022, Plaintiff, Jonathan D’Cunha, M.D. filed a third party complaint in the United States District Court for the Western District of Pennsylvania against UPMC and certain of its subsidiaries alleging that they failed to provide insurance coverage and/or indemnification to him for claims asserted against him by a current UPMC cardiothoracic surgeon. Those claims contend, *inter alia*, that Dr. D’Cunha defamed and illegally wiretapped the UPMC surgeon. The UPMC Defendants have filed answers to those claims. On June 14, 2023, the Court heard argument on various motions for judgment on the pleadings and summary judgment. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On February 17, 2023, UPMC was served with a *qui tam* suit that had been filed under seal in 2019, alleging that it, along with the Magee Womens Research Institute (“MWRI”) and the University of Pittsburgh, violated the False Claims Act by overbilling federal grants received by MWRI. On November 21, 2022, the United States filed its notice declining to intervene in the lawsuit. On March 24, 2023, the Relator filed a Second Amended Complaint that, *inter alia*, added UPMC Magee-Womens Hospital as a defendant. On June 13, 2023, the defendants moved to dismiss the Second Amended Complaint. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

## 11. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to June 30, 2023 through August 24, 2023, the date the consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.