

# UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED MARCH 31, 2024



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The following financial data as of March 31, 2024 and for the three-month periods ended March 31, 2024 and 2023 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, 2023 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 MARCH 31, 2024

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. UPMC also draws patients for highly specialized services from across the nation and around the world. UPMC's more than 40 hospitals and 800 clinical locations comprise one of the largest nonprofit health systems in the United States. UPMC serves patients and members across the continuum of healthcare with its hospital; physician and homecare services; physical, behavioral health insurance product offerings; international operations and its Enterprises division.

UPMC is committed to providing high quality, cost-effective healthcare to its communities and its insurance members, while continuing to grow its business and execute on its 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 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. UPMC builds new facilities, makes strategic acquisitions and enters into joint venture arrangements or affiliations with healthcare businesses — in each case in communities where it believes its mission can be effectively utilized to improve the overall health of those communities.

As the stewards of UPMC's community assets, UPMC is guided by the core values of integrity, excellence, respect and teamwork. These values govern the manner in which UPMC serves its 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 UPMC's condensed consolidated financial statements that enhances the overall financial disclosures, to provide the context within which the financial information may be analyzed, and to provide information about the quality of, and potential variability of, UPMC's financial condition, results of operations and cash flows.

Unless otherwise indicated, all financial information included herein relates to UPMC's 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 MARCH 31, 2024

## CONSOLIDATED FINANCIAL HIGHLIGHTS

Financial Results for the Three Months Ended March 31	2024	2023
Operating revenues	\$ 7,138	\$ 6,866
Operating (loss) income	\$ (103)	\$ 100
Operating margin %	(1.4)%	1.5%
Operating margin % (after income tax and interest expense)	(2.3)%	0.8%
Gain from investing and financing activities	\$ 138	\$ 168
Excess of (expenses over revenues) revenues over expenses attributable to controlling interest	\$ (24)	\$ 191
Operating EBIDA	\$ 72	\$ 270
Capital expenditures	\$ 210	\$ 202
Reinvestment ratio	1.20	1.19

Selected Other Information as of	March 31, 2024	December 31, 2023
Total cash and investments	\$ 9,458	\$ 9,547
Unrestricted cash and investments	\$ 8,101	\$ 8,221
Unrestricted cash and investments over long-term debt	\$ 1,532	\$ 1,613
Days of cash on hand	103	109
Days in net accounts receivable	44	44
Average age of plant (in years)	11.3	11.2

Operating income decreased for the three months ended March 31, 2024 by \$203 million compared to prior year. Ongoing pressures in the labor and supply markets as a result of inflation continue to have a negative impact on operating income, as do lower Medicare and Medicaid product underwriting margins. Excluding the equity earnings on UPMC's investment in CarepathRx of \$163 million from the prior year, operating results are comparable year-over-year. UPMC's gain from investing and financing activities for the three months ended March 31, 2024 was \$138 million. UPMC continues to have a long-term perspective with regard to its investment activities. As of March 31, 2024, UPMC had more than \$9.4 billion of cash and investments, of which approximately \$3.2 billion was held by UPMC's regulated health and captive insurance companies.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

## BUSINESS HIGHLIGHTS

In response to rising costs and declining reimbursements, the same challenges that are facing healthcare systems across the nation, UPMC has undertaken a comprehensive initiative aimed at enhancing operational efficiency and optimizing cost structures. UPMC is moving ahead with the necessary investments that will ensure continued success with a clear focus on its mission of serving its patients, members and employees while shaping tomorrow's health system through clinical and technological innovation, research and education.

### Expanding Access to Patient Care

In January 2024, UPMC Horizon-Shenango Valley announced an expansion of its Emergency Department ("ED") that will add additional beds, providing greater capacity to offer the most accessible emergency medical care for residents in Mercer and Lawrence counties. With substantial demand for UPMC's care in this region, patient volume in this ED has grown by nearly 15% annually in recent years. UPMC has committed more than \$1 million to the project and it is expected to be completed by late summer 2024.

UPMC Horizon-Shenango Valley also expanded services with an announcement in February 2024 to install a second linear accelerator ("LINAC") at the UPMC Hillman Cancer Center on UPMC Horizon's campus. LINAC is used for external beam radiation oncology treatments, delivering high-energy x-rays or electrons to the region of the tumor. The \$9.6 million project is slated for completion by the end of 2024. UPMC Hillman Cancer Center - Horizon is the only National Cancer Institute-designated Comprehensive Cancer Center in the region, providing the most advanced, evidence-based treatments and clinical trials not previously available in the communities served.

In February 2024, the UPMC Hillman Cancer Center on the UPMC West Shore campus in Mechanicsburg, Pa. opened with 38,000-square-foot of newly renovated space, providing expanded state-of-the-art cancer treatment and comprehensive personalized care in a soothing and modern atmosphere designed to enhance the patient experience. As a result of the expansion, the clinical research team will be able to screen, qualify and enroll Mechanicsburg-area patients for appropriate clinical trials at UPMC Hillman Cancer Center and the University of Pittsburgh School of Medicine, a process that would have previously required a trip to Pittsburgh.

In February 2024, UPMC Jameson in New Castle, Pa. added UPMC Children's Rehabilitation Therapies, the only dedicated outpatient rehabilitation facility for children in the area, redefining local access to pediatric rehab services. Families in and around Lawrence and Mercer counties, in addition to those traveling from Pittsburgh's northern communities and neighboring areas, are now receiving family-centered, advanced pediatric rehabilitation in one location. The new center provides pediatric physical therapy and speech therapy and will soon provide pediatric occupational therapy. It complements UPMC Children's existing primary and specialty care presence in the region at UPMC Children's Community Pediatrics locations.

In March 2024, UPMC North Central Pa. opened UPMC Spine Care in Lewisburg, Pa. As the first-of-its-kind in the region, it serves as a single access point connecting individuals experiencing back and neck pain with a centralized integrated team of UPMC's spine experts who specialize in the management and treatment, both surgical and non-surgical, of a wide array of spinal disorders. Providers evaluate individuals, establish a care plan, and provide direct referrals to specialists for on-going treatment.

The transplant program at UPMC Central Pa. completed the region's first robotic nephrectomy on a living donor. While living donor nephrectomies have typically been performed using either a laparoscopic technique or open surgery, the robotic system allows surgeons to perform minimally invasive living donor surgical procedures with increased precision and easier access to hard-to-reach areas. Also, the surgical oncology team at UPMC Central Pa. performed its first hyperthermic intraperitoneal chemoperfusion ("HIPEC"), one of the most innovative procedures for advanced metastatic cancer of the abdomen. HIPEC requires highly skilled surgical oncologists and is only performed at leading cancer centers.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

In October 2023, UPMC and Washington Health System (“WHS”) executed an agreement outlining the integration and affiliation of WHS with and into the UPMC system. The closing date for this transaction will be established following the completion of applicable regulatory review processes. For the past decade, WHS and UPMC have collaborated in several areas to deliver high-quality, patient-centered care, including a joint partnership with UPMC Hillman Cancer Center for local cancer treatment, UPMC Children’s Hospital of Pittsburgh and Express Care clinics on the campus of WHS and other clinical collaborations including heart and vascular care, UPMC Magee Women’s care and telestroke. The primary focus is to ensure the residents of Washington and Greene counties have access to local high-quality care that is sustainable into the future.

## Quality

In February 2024, UPMC St. Margaret earned, for the fourth time, the distinguished Magnet® Recognition from the American Nurses Credentialing Center, which distinguishes organizations that meet rigorous standards for nursing excellence. Only 9.4% of U.S. health care organizations have achieved Magnet recognition, considered the highest honor and gold standard for nursing excellence. Four-time Magnet designations are received by fewer than 5% of hospitals nationwide, and only 10 hospitals in Pennsylvania have earned it three times or more. To maintain designation, organizations must reapply every four years. UPMC St. Margaret was the first hospital in the UPMC system to achieve Magnet designation in 2009. Other Magnet-designated UPMC hospitals are UPMC Presbyterian, UPMC Children’s, UPMC Passavant, UPMC Community Osteopathic, UPMC Hamot, UPMC Harrisburg, UPMC Magee-Womens, UPMC Shadyside and UPMC West Shore.

In March 2024, for the sixth consecutive year, Ethisphere Institute named UPMC one of the World’s Most Ethical Companies. UPMC is one of 136 honorees recognized for 2024, spanning across 44 industries and 20 countries, and is the only organization recognized in the integrated health care systems category. Ethisphere is a global leader in defining and advancing the standards of ethical business practices. Its “Most Ethical” designation is reserved for a select number of companies with exceptional programs and a commitment to advancing business integrity.

In March 2024, UPMC Central Pa. became first in the state to achieve accreditation from Surgical Review Corporation as a Network of Excellence in Hernia Surgery, reflecting UPMC’s commitment and high standard delivery of quality patient care and safety. UPMC surgeons in central Pa. perform more than 2,500 hernia repairs yearly using advanced and minimally invasive techniques. All seven UPMC hospitals in the region are recognized as Centers of Excellence in hernia care and have met national and international standards to obtain the accreditation. Each campus has implemented system-wide pathways and procedures to ensure that excellent care is uniform and irrespective of where patients choose to have their treatment performed.

## UPMC International

In March 2024, UPMC-ISMETT, an international leader in organ transplantation, advanced cardiothoracic and abdominal surgery and highly specialized therapies, completed a milestone 3,000 organ transplants. This achievement is made possible by UPMC expertise that enhances access to life-saving transplants for people in Italy and countries across the Mediterranean. Located in Palermo, Italy, UPMC-ISMETT is a high-specialty advanced tertiary hospital developed by UPMC in partnership with the government of Sicily to ensure that patients no longer need to travel outside of their region or country to receive advanced health care. It is a renowned public-private international partnership since 1997 and an institute for scientific-based care and research in the fields of end-stage organ failure, serving both adults and children. Because of the partnership between UPMC and the Sicilian Region, UPMC-ISMETT has been recognized by the National Transplant Center in Italy as having the best survival rates in the country for its excellence and management of the most complex cases, including double lung transplants, emergency transplants, and combined transplants.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

## Innovation Investments

In March 2024, an innovation by UPMC Enterprises portfolio company, RxAnte, received major validation with a deep dive analysis published in *NEJM Catalyst*. RxAnte focuses on Medicare Advantage members who have chronic conditions requiring multiple medications and strives to reduce under, over and misuse of prescription drugs. RxAnte achieved a net savings of nearly \$400 per patient each month, better medication adherence and a reduction in inpatient admissions. The success is a reflection of the UPMC Enterprises' model. The partnership between RxAnte, UPMC and UPMC Health Plan transformed an idea into a proven success with the evidence being published in one of the world's premier academic journals.

## Insurance Services Division

Reflecting a longstanding commitment to support affordable access to high-quality care available through Pennie, the State-Based Exchange, UPMC Insurance Services saw robust growth in both the individual and small group plans offered via this platform. Additionally, UPMC Insurance Services' newest "virtual first" commercial product, UPMC First Care, launched to all markets at the start of the new year.

UPMC *for You*, UPMC *for Kids* and UPMC Community HealthChoices retained market leadership across the state during Q1 2024. UPMC *for Life* Medicare plans continued to grow its membership and market share across Pennsylvania, maintaining a year-round enrollment option due to its Five-Star Quality Rating from the Centers for Medicare & Medicaid Services.

Through the Pathways to Work program, UPMC continues to focus on job training and career development for individuals who are unemployed and have significant barriers to work. In the first quarter of 2024, UPMC worked with Partner4Work and the Pa. Department of Labor & Industry to register three innovative apprenticeship programs in Pennsylvania. The Certified Nursing Assistant, Facilities Maintenance Technician and Surgical Technician programs will target individuals in communities impacted by health disparities.

In early 2024, the UPMC Center for Social Impact (the "Center") celebrated its 200<sup>th</sup> UPMC Health Plan member who transitioned from being unhoused to placement in stable housing through the Center's Cultivating Health for Success ("CHFS") program. The CHFS program combines expertise from community housing partners along with the UPMC Community Treatment Team with an objective of meeting health goals and securing rental subsidies to pay for housing. Evidence shows that housed members experience better health outcomes which leads to a higher quality of life all while lowering medical costs.

## Community Partnership Investments

In January 2024, the Whitaker Center for Science and the Arts in Harrisburg, Pa., announced the renaming of its downtown Harrisburg Science Center to the UPMC Science Center. This 12-year UPMC sponsorship marks an exciting collaboration between the Whitaker Center and UPMC to bring science, technology, engineering and mathematics programs and exhibits to communities in the greater Harrisburg area and inspire the next generation of healthcare professionals. For people of all ages and backgrounds, the UPMC Science Center provides hands-on learning opportunities, thought-provoking displays and interactive demonstrations through traveling exhibits, summer camps, school field trips and other STEAM programming. The impact extends far beyond the walls of the center by reaching into schools, homes, and beyond, providing accessibility to all members of the community.

Between January and March 2024, dozens of local elected officials representing the city of Erie and communities served by UPMC North Central Pa. participated in UPMC's Minutes Matter training to be more prepared in the event of life-threatening or serious emergencies, such as car accidents, cardiac events, uncontrolled bleeding, drug overdoses and mental health crises. UPMC has invested in Minutes Matter as an ongoing robust community initiative across all UPMC regions that focuses on preparing for these types of scenarios because bystanders are usually the first people at the scene before trained emergency professionals arrive.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended March 31, 2024

<b>Revenues:</b>	<b>Health Services</b>	<b>Insurance Services</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net patient service revenue	\$ 3,760	\$ -	\$ (859)	\$ 2,901
Insurance enrollment revenue	-	3,740	-	3,740
Other revenue	362	158	(23)	497
<b>Total operating revenues</b>	<b>\$ 4,122</b>	<b>\$ 3,898</b>	<b>\$ (882)</b>	<b>\$ 7,138</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 2,340	\$ 166	\$ (21)	\$ 2,485
Insurance claims expense	-	3,493	(848)	2,645
Supplies, purchased services and general	1,709	240	(13)	1,936
Depreciation and amortization	174	1	-	175
<b>Total operating expenses</b>	<b>4,223</b>	<b>3,900</b>	<b>(882)</b>	<b>7,241</b>
<b>Operating loss</b>	<b>\$ (101)</b>	<b>\$ (2)</b>	<b>\$ -</b>	<b>\$ (103)</b>
<b>Operating margin %</b>	<b>(2.5)%</b>	<b>(0.1)%</b>	<b>-</b>	<b>(1.4)%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>(4.0)%</b>	<b>(0.1)%</b>	<b>-</b>	<b>(2.3)%</b>
<b>Operating EBIDA</b>	<b>\$ 73</b>	<b>\$ (1)</b>	<b>\$ -</b>	<b>\$ 72</b>
<b>Operating EBIDA %</b>	<b>1.8%</b>	<b>0.0%</b>	<b>-</b>	<b>1.0%</b>

Three Months Ended March 31, 2023

<b>Revenues:</b>				
Net patient service revenue	\$ 3,516	\$ -	\$ (812)	\$ 2,704
Insurance enrollment revenue	-	3,539	-	3,539
Other revenue	465	180	(22)	623
<b>Total operating revenues</b>	<b>\$ 3,981</b>	<b>\$ 3,719</b>	<b>\$ (834)</b>	<b>\$ 6,866</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 2,232	\$ 151	\$ (19)	\$ 2,364
Insurance claims expense	-	3,245	(803)	2,442
Supplies, purchased services and general	1,550	252	(12)	1,790
Depreciation and amortization	168	2	-	170
<b>Total operating expenses</b>	<b>3,950</b>	<b>3,650</b>	<b>(834)</b>	<b>6,766</b>
<b>Operating income</b>	<b>\$ 31</b>	<b>\$ 69</b>	<b>\$ -</b>	<b>\$ 100</b>
<b>Operating margin %</b>	<b>0.8%</b>	<b>1.9%</b>	<b>-</b>	<b>1.5%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>(0.5)%</b>	<b>1.8%</b>	<b>-</b>	<b>0.8%</b>
<b>Operating EBIDA</b>	<b>\$ 199</b>	<b>\$ 71</b>	<b>\$ -</b>	<b>\$ 270</b>
<b>Operating EBIDA %</b>	<b>5.0%</b>	<b>1.9%</b>	<b>-</b>	<b>3.9%</b>



# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

## 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 (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 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, Kazakhstan and Croatia.

Operating income for the three months ended March 31, 2024 decreased by \$132 million versus the prior year for the Health Services Division. Excluding prior year's equity earnings related to UPMC's investment in CarepathRx and legal settlements, operating income for the Health Services Division increased compared to prior year due primarily to improved volumes and decreases in contract labor expenses.

## Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have more than 4.2 million members as of March 31, 2024. 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.

Operating income for the three months ended March 31, 2024 declined by \$71 million compared to the three months ended March 31, 2023 for the Insurance Services Division. The decrease in operating income is a result of lower Medicaid and Medicare product underwriting margins.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

## 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

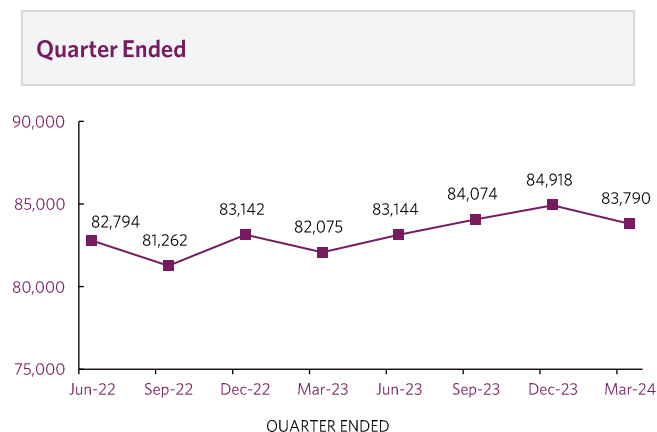
PERIOD ENDED MARCH 31, 2024

## REVENUE METRICS – HEALTH SERVICES

### Medical-Surgical Admissions and Observation Visits

Inpatient activity, as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the three months ended March 31, 2024, increased 2% compared to the same period in 2023.

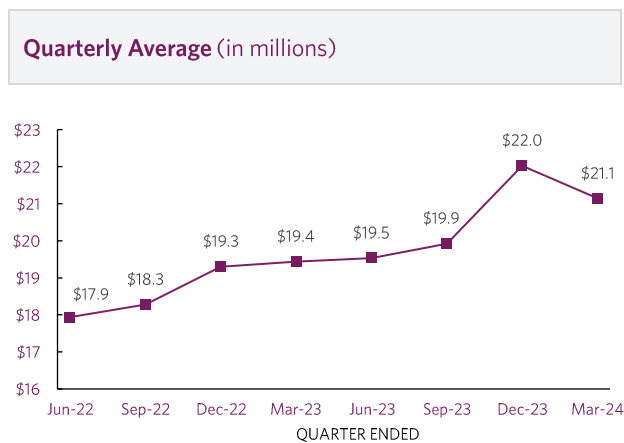
For the Three Months Ended March 31			
(in thousands)	2024	2023	Change
Academic	27.7	27.0	3%
Community	11.8	11.8	0%
Regional	44.3	43.3	2%
<b>Total</b>	<b>83.8</b>	<b>82.1</b>	<b>2%</b>



### Outpatient Revenue per Workday

UPMC's outpatient activity for the three months ended March 31, 2024, as measured by average revenue per workday, increased 9% compared to the same period in 2023. Surgical demand, particularly in the outpatient setting, has increased as former inpatient services continue to move to outpatient. This, coupled with the increase in ambulatory patient volumes, has caused the increase to outpatient revenue per workday. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Three Months Ended March 31			
(in thousands)	2024	2023	Change
Academic	\$ 7,790	\$ 7,242	8%
Community	2,186	1,980	10%
Regional	11,167	10,213	9%
<b>Total</b>	<b>\$ 21,143</b>	<b>\$ 19,435</b>	<b>9%</b>



# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

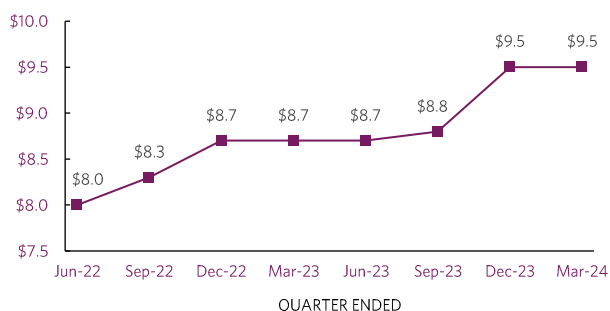
## REVENUE METRICS – HEALTH SERVICES (CONTINUED)

### Physician Service Revenue per Weekday

UPMC's physician activity for the three months ended March 31, 2024, as measured by average revenue per weekday, increased 8% from the comparable period in 2023. Physician services activity is measured on a weekday basis.

For the Three Months Ended March 31			
(in thousands)	2024	2023	Change
<b>Academic</b>	\$ 4,075	\$ 3,854	6%
<b>Community</b>	2,057	1,905	8%
<b>Regional</b>	3,322	2,977	12%
<b>Total</b>	\$ 9,454	\$ 8,736	8%

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 hospitals' gross patient service revenue by payer.

	Three Months Ended March 31	
	2024	2023
<b>Medicare</b>	49%	48%
<b>Medical Assistance</b>	17%	18%
<b>Commercial Insurers</b>	16%	15%
<b>UPMC Insurance Services Commercial</b>	11%	11%
<b>Self-pay/Other</b>	7%	8%
<b>Total</b>	100%	100%

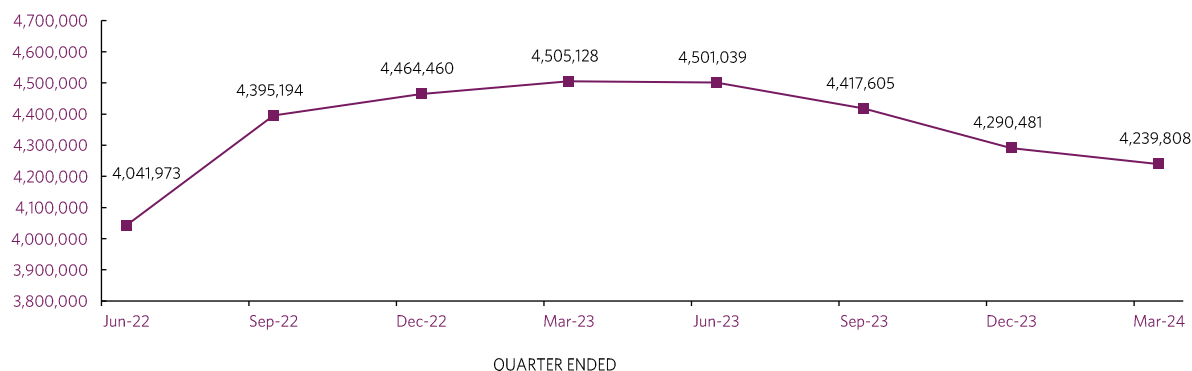
# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

## OPERATING METRICS - INSURANCE SERVICES

### Membership

Membership in the UPMC Insurance Services division decreased to 4,239,808 as of March 31, 2024, a 6% decrease versus March 31, 2023. The decrease is primarily due to expected redeterminations within the Medical Assistance and Behavioral Health products as a result of the end of the COVID-19 public health emergency.

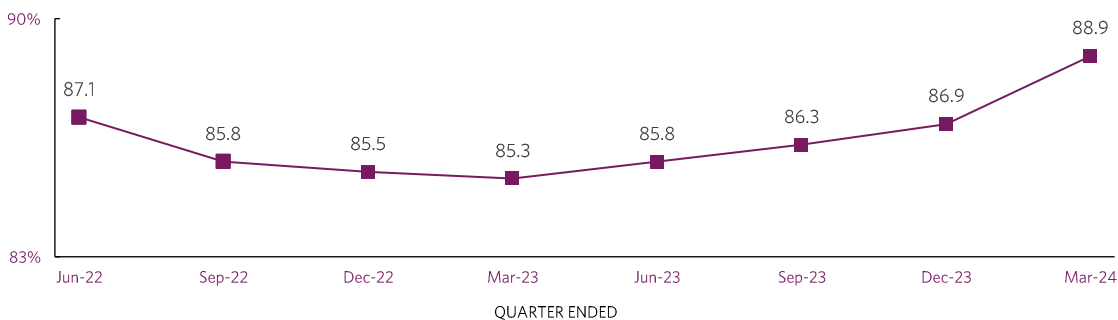


As of	March 31, 2024	March 31, 2023
Commercial Health	568,539	572,551
Medicare	217,057	206,011
Medical Assistance	659,891	760,989
Sub-Total Physical Health Products	1,445,487	1,539,551
Community HealthChoices	135,862	140,929
Behavioral Health	1,277,171	1,512,257
Sub-Total Health Products	2,858,520	3,192,737
Workpartners	878,603	825,919
Ancillary Products	488,374	470,020
Third-Party Administration	14,311	16,452
<b>Total Membership</b>	<b>4,239,808</b>	<b>4,505,128</b>

### Medical Expense Ratio

UPMC Insurance Services' medical expense ratio for the trailing twelve months has increased to 88.9% as of March 31, 2024. 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 MARCH 31, 2024

## KEY FINANCIAL INDICATORS

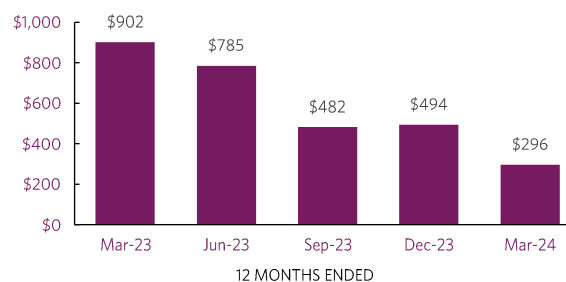
(Dollars in millions)

### Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the three months ended March 31, 2024 decreased \$198 million compared to the three months ended March 31, 2023.

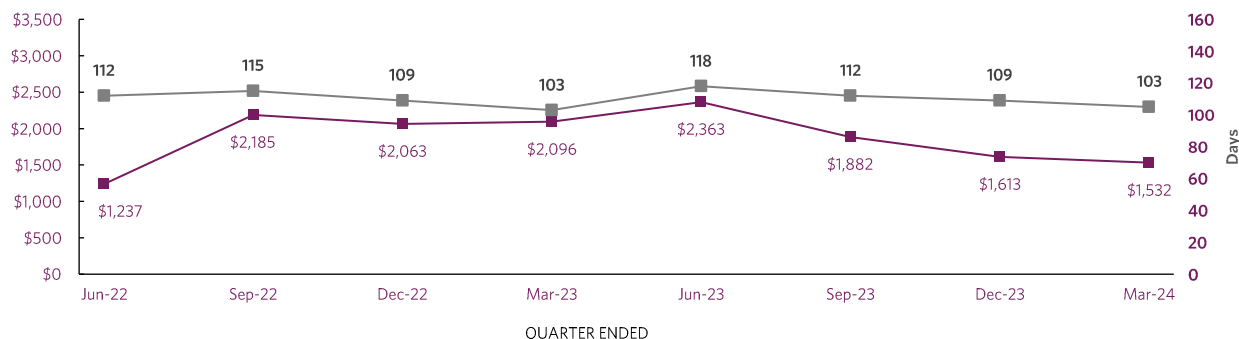
For the Three Months Ended March 31			
(in millions)	2024	2023	Change
Operating (Loss)/Income	\$ (103)	\$ 100	(203)%
Depreciation and Amortization	175	170	3%
Operating EBIDA	\$ 72	\$ 270	(73)%

### Trailing Twelve Months Operating EBIDA



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

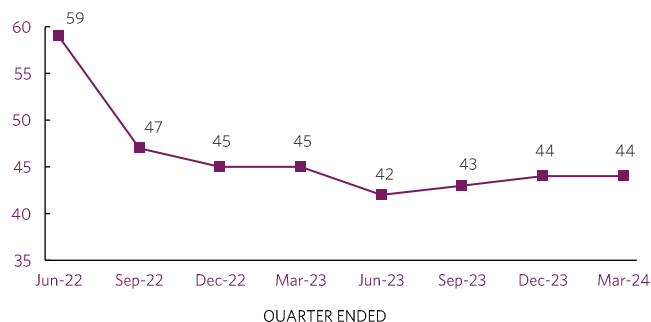
As of March 31, 2024, unrestricted cash and investments over long term debt decreased \$81 million compared to December 31, 2023.



### Days in Net Accounts Receivable

Days in net Accounts Receivable at both March 31, 2024 and December 31, 2023 were 44.

By Receivable	March 2024 Balance	Days	
		Mar 31, 2024	Dec 31, 2023
Patient	\$ 1,546	46	49
Insurance and other	1,968	42	40
Consolidated	\$ 3,514	44	44





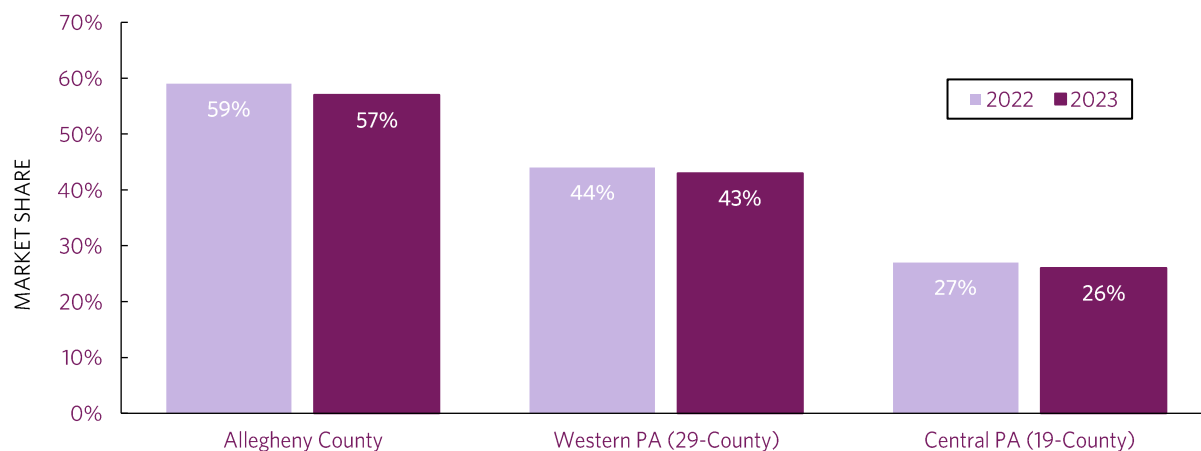
# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

## MARKET SHARE

The chart below shows the change in UPMC's estimated inpatient market share for the first three quarters of calendar years 2022 and 2023 by service area.<sup>(1)</sup> This is the most recent market share data currently available.

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



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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

## ASSET AND LIABILITY MANAGEMENT

During the three months ended March 31, 2024, UPMC's investment portfolio returned 2.7%. As of March 31, 2024, UPMC utilized 176 ongoing external investment managers including 43 traditional managers, 17 hedge fund managers and 116 private capital managers. UPMC 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 9.3%, 2.7% and 6.1% for the trailing one-, three- and five-year periods. As of March 31, 2024, 70% of UPMC's investment portfolio could be liquidated within three days.

UPMC's cost of capital during the three-month period ended March 31, 2024 was 3.6%. This cost of capital includes the accrual of interest payments, the amortization of financing costs and original issue discount or premium, the ongoing costs of variable rate debt and the cash flow impact of derivative contracts. As of March 31, 2024, 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 4.5%. The interest cost for the fixed rate debt was 3.4%. UPMC's primary credit facility, which expires in May 2028, has a borrowing limit of \$1 billion. As of March 31, 2024, UPMC had approximately \$130 million in letters of credit outstanding under the credit facility leaving \$870 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 March 31, 2024, these credit facilities were undrawn.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2024

The table below compares reported Investing and Financing Activity for the three months ended March 31, 2024 and 2023 by type.

## Investing and Financing Activity by Type

Three Months Ended March 31	2024	2023
<i>(in thousands)</i>		
Realized gain	\$ 298,395	\$ 127,710
Interest and dividends, net of fees	46,143	32,333
Realized investment gain	\$ 344,538	\$ 160,043
Unrealized gain (loss) on derivative contracts	196	(2,977)
Unrealized investment (loss) gain	(136,908)	86,055
Investment gain	\$ 207,826	\$ 243,121
Interest expense	(57,461)	(42,390)
UPMC Enterprises activity	(12,863)	(32,248)
<b>Gain from investing and financing activities</b>	<b>\$ 137,502</b>	<b>\$ 168,483</b>

## Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of March 31, 2024, UPMC had approximately \$1.2 billion of cash and cash equivalents.

Operating EBIDA was \$72 million for the three months ended March 31, 2024, compared to \$270 million for the three months ended March 31, 2023. Key uses of cash for the three months ended March 31, 2024 include capital expenditures of approximately \$195 million (excluding any capital acquired through lease arrangements). Major capital projects included construction and improvements at UPMC Presbyterian, UPMC Central Pa. and UPMC North Central Pa., as well as ongoing expansion and improvement across the entirety of UPMC. Major information services projects included enhancements that are advancing UPMC's leading clinician centric computing environment, technology infrastructure that supports UPMC's diversified digital environment, investments in enterprise data analytics and other technologies that are transforming the consumer experience across the spectrum of health care.

# UTILIZATION STATISTICS

PERIOD ENDED MARCH 31, 2024

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, rehabilitation and skilled nursing patient activity for the three months ended March 31, 2024 and 2023.

	Three Months Ended March 31	
	2024	2023
Licensed Beds	8,683	8,770
<b>BEDS IN SERVICE</b>		
Medical-Surgical	5,052	5,121
Psychiatric	430	430
Rehabilitation	242	244
Skilled Nursing	1,543	1,540
Total Beds in Service	7,267	7,335
<b>PATIENT DAYS</b>		
Medical-Surgical	339,648	342,526
Psychiatric	26,808	27,485
Rehabilitation	16,874	15,847
Skilled Nursing	112,426	105,420
Total Patient Days	495,756	491,278
Average Daily Census	5,448	5,459
Observation Days	39,943	39,824
Obs Average Daily Census	439	442
<b>ADMISSIONS AND OBSERVATION CASES</b>		
Medical-Surgical	61,033	59,027
Observation Cases	22,757	23,048
Subtotal	83,790	82,075
Psychiatric	2,321	2,532
Rehabilitation	1,123	1,068
Skilled Nursing	972	1,118
Total Admissions and Observation Cases	88,206	86,793
Overall Occupancy	81%	80%
<b>AVERAGE LENGTH OF STAY</b>		
Medical-Surgical	5.6	5.8
Psychiatric	11.6	10.9
Rehabilitation	15.0	14.8
Skilled Nursing	115.7	94.3
Overall Average Length of Stay	7.6	7.7
Emergency Room Visits	255,949	248,648
<b>TRANSPLANTS (DOMESTIC AND INTERNATIONAL)</b>		
Liver	81	65
Kidney	111	81
All Other	67	76
Total	259	222
<b>OTHER POST-ACUTE METRICS</b>		
Home Health Visits	128,372	129,435
Hospice Care Days	61,284	56,518
Outpatient Rehab Visits	179,188	173,114

# OUTSTANDING DEBT

PERIOD ENDED MARCH 31, 2024

(DOLLARS IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$ 35,875
	UPMC	2007A	26,590
	UPMC	2017D	388,540
	UPMC	2019A	704,614
	UPMC	2021B	45,504
Monroeville Finance Authority	UPMC	2012	58,910
	UPMC	2014B	41,405
	UPMC	2022B	169,249
	UPMC	2023C	40,497
Pennsylvania Economic Development Financing Authority	UPMC	2014A	239,149
	UPMC	2015B	107,111
	UPMC	2016	198,930
	UPMC	2017A	398,559
	UPMC	2017B	86,220
	UPMC	2017C	130,823
	UPMC	2020A	266,579
	UPMC	2021A	245,577
	UPMC	2022A	223,516
	UPMC	2023A	470,563
	UPMC	2023B	94,952
Tioga County Industrial Development Authority	Laurel Health System	2010	4,962
	Laurel Health System	2011	3,317
Dauphin County General Authority	Pinnacle Health System	2016A	89,858
	Pinnacle Health System	2016B	78,130
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	1,810
	Hanover Hospital	2015	20,270
Potter County Hospital Authority	UPMC	2018A	10,227
Somerset County Hospital Authority	Somerset Hospital	2009	51
Maryland Health and Higher Educational Facilities Authority	UPMC	2020B	193,249
None	UPMC	2020D	349,880
	UPMC	2020 Term Loan	299,946
	UPMC	2021C	399,698
	UPMC	2023	795,527
	Somerset Management Services	2013	1,285
	Various	Financing Leases & Loans	278,009
		Swap Liabilities	88
<b>Total UPMC Outstanding Debt</b>			<b>\$ 6,748,510</b>

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

Source: UPMC Records

# DEBT COVENANT CALCULATIONS

PERIOD ENDED MARCH 31, 2024

(Dollars in thousands)

## DEBT SERVICE COVERAGE RATIO

UPMC is subject to a Debt Service Coverage Ratio covenant, tested annually at fiscal year-end, of 1.25x in various bank agreements and 1.10x in the 2007 MTI.

	Trailing Twelve-Month Period Ended March 31, 2024	
Excess of expenses over revenues	\$	(246,109)
<b>ADJUSTED BY:</b>		
Net Unrealized Gains during Period <sup>(1)</sup>		(19,413)
Depreciation and Amortization <sup>(1)</sup>		697,976
Gain on Extinguishment of Debt <sup>(1)</sup>		(1,385)
Lease Impairment Realization - Facilities <sup>(2)</sup>		(11,052)
Realized Investment Impairments <sup>(2)</sup>		(1,462)
Interest Expense <sup>(3)</sup>		218,658
Revenues Available for Debt Service	\$	637,213
Historical Debt Service Requirements - 2007 Master Trust Indenture ("MTI")	\$	418,001
<b>Debt Service Coverage Ratio - 2007 MTI</b>		<b>1.52X</b>
Historical Debt Service Requirements - All Debt and Finance Leases	\$	468,755
Debt Service Coverage Ratio - All Debt and Finance Leases		1.36X

## LIQUIDITY RATIO AS OF MARCH 31, 2024

UPMC is subject to a Liquidity Ratio covenant, tested annually at fiscal year-end, of 0.6x in various bank agreements and 0.5x in the 2007 MTI.

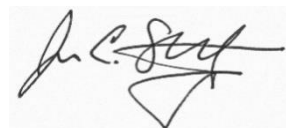
Unrestricted Cash and Investments	\$	8,101,186
Master Trust Indenture Debt		6,219,607
<b>Unrestricted Cash to MTI Debt</b>		<b>1.30</b>

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

<sup>(2)</sup> Reflects ultimate realization of previous impairments.

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

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



J.C. Stille  
Treasurer  
UPMC



# Unaudited Interim Condensed Consolidated Financial Statements

FOR THE PERIOD ENDED MARCH 31, 2024



Ernst & Young LLP  
2100 One PPG Place  
Pittsburgh, PA 15222

Tel: +1 412 644 7800  
Fax: +1 412 644 0477  
ey.com

## 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 March 31, 2024, and the related condensed consolidated statements of operations and changes in net assets, and cash flows for the three-month periods ended March 31, 2024 and 2023, 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, 2023

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, 2023, 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, 2024. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Ernst & Young LLP*

May 21, 2024

# CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(DOLLARS IN THOUSANDS)

As of  
March 31, 2024    December 31, 2023

## CURRENT ASSETS

Cash and cash equivalents	\$ 1,246,406	\$ 1,104,198
Patient accounts receivable	1,546,443	1,587,557
Insurance and other receivables	1,899,002	1,789,429
Other current assets	749,593	717,144
<b>Total current assets</b>	<b>5,441,444</b>	<b>5,198,328</b>
Board-designated, restricted, trustee and other investments	8,211,526	8,442,381
Beneficial interests in foundations and trusts	749,286	726,515
Net property, buildings and equipment	6,640,018	6,624,425
Operating lease right-of-use assets	704,901	738,064
Other assets	954,181	917,022
<b>Total assets</b>	<b>\$ 22,701,356</b>	<b>\$ 22,646,735</b>

## CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 914,238	\$ 926,524
Accrued salaries and related benefits	1,091,354	1,060,393
Current portion of insurance reserves	1,343,509	1,301,619
Current portion of long-term obligations	175,777	171,239
Other current liabilities	912,763	878,322
<b>Total current liabilities</b>	<b>4,437,641</b>	<b>4,338,097</b>
Long-term obligations	6,572,733	6,623,508
Long-term insurance reserves	458,283	446,567
Operating lease noncurrent liabilities	673,567	707,447
Other noncurrent liabilities	571,357	546,479
<b>Total liabilities</b>	<b>12,713,581</b>	<b>12,662,098</b>
Net assets without donor restrictions	8,700,758	8,730,411
Net assets with donor restrictions	1,287,017	1,254,226
<b>Total net assets</b>	<b>9,987,775</b>	<b>9,984,637</b>
<b>Total liabilities and net assets</b>	<b>\$ 22,701,356</b>	<b>\$ 22,646,735</b>

See accompanying notes

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

(DOLLARS IN THOUSANDS)

Three Months Ended March 31

	2024	2023
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Net patient service revenue	\$ 2,900,655	\$ 2,704,311
Insurance enrollment revenue	3,740,126	3,538,599
Other revenue	497,295	622,647
Total operating revenues	7,138,076	6,865,557
Salaries, professional fees and employee benefits	2,484,160	2,363,753
Insurance claims expense	2,645,346	2,441,587
Supplies, purchased services and general	1,936,271	1,789,846
Depreciation and amortization	175,319	170,001
Total operating expenses	7,241,096	6,765,187
Operating (loss) income	(103,020)	100,370
Academic and research support provided	(63,250)	(60,375)
Income tax and other non-operating activities	3,918	1,986
After-tax (loss) income	\$ (162,352)	\$ 41,981
Investing and financing activities:		
Investment gain	207,826	243,121
Interest expense	(57,461)	(42,390)
UPMC Enterprises activity:		
Portfolio company revenue and net gains from sales	46,095	17,683
Portfolio company and research and development expense	(58,958)	(49,931)
Gain from investing and financing activities	137,502	168,483
Excess of (expenses over revenues) revenues over expenses	(24,850)	210,464
Net activity attributable to noncontrolling interest	484	(19,375)
Excess of (expenses over revenues) revenues over expenses attributable to controlling interest	(24,366)	191,089
Net change in pension liability and other	(5,287)	(3,821)
Change in net assets without donor restrictions	(29,653)	187,268
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Change in beneficial interests in foundations and trusts	22,771	17,947
Other changes in net assets with donor restrictions	10,020	6,167
Change in net assets with donor restrictions	32,791	24,114
Change in total net assets	3,138	211,382
Net assets, beginning of period	9,984,637	9,906,882
Net assets, end of period	\$ 9,987,775	\$ 10,118,264

See accompanying notes

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

	Three Months Ended March 31	
	2024	2023
<b>OPERATING ACTIVITIES</b>		
Increase in total net assets	\$ 3,138	\$ 211,382
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	175,319	170,001
Change in beneficial interest in foundations and trusts	(22,771)	(17,947)
Restricted contributions and investment gains	(14,411)	(7,210)
Unrealized losses (gains) on investments	136,908	(86,055)
Realized gains on investments	(298,395)	(127,821)
Net changes in non-alternative investments	288,157	188,193
Changes in operating assets and liabilities:		
Accounts receivable	(68,459)	(149,913)
Other current assets	(32,449)	(121,616)
Accounts payable and accrued liabilities	18,675	19,718
Insurance reserves	53,606	46,177
Other current liabilities	34,441	478,313
Other noncurrent assets and liabilities	(8,982)	(132,795)
Other operating changes	70,022	4,937
Net cash provided by operating activities	334,799	475,364
<b>INVESTING ACTIVITIES</b>		
Purchase of property, buildings and equipment	(194,814)	(195,205)
UPMC Enterprises investments in non-consolidated entities	(10,702)	(41,631)
Consideration paid for acquisitions	-	(247,626)
Net change in investments designated as nontrading	601	(16,385)
Net change in alternative investments	88,380	82,582
Other investing changes	(35,799)	16,354
Net cash used in investing activities	(152,334)	(401,911)
<b>FINANCING ACTIVITIES</b>		
Repayments of long-term obligations	(56,333)	(88,124)
Borrowings of long-term obligations	1,665	164,110
Other financing changes	14,411	7,210
Net cash (used in) provided by financing activities	(40,257)	83,196
Net change in cash and cash equivalents	142,208	156,649
Cash and cash equivalents, beginning of period	1,104,198	953,980
Cash and cash equivalents, end of period	\$ 1,246,406	\$ 1,110,629
<b>SUPPLEMENTAL INFORMATION</b>		
Finance lease obligations incurred to acquire assets	\$ 14,834	\$ 6,795

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, 2023.

## 2. NEW ACCOUNTING PRONOUNCEMENTS

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

## 3. 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.



# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Agreements with third-party payers typically provide for payments at amounts less than established charges. Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. UPMC also provides services to uninsured patients. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). UPMC also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record these revenues at the estimated amounts UPMC expects to collect. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods if final settlements differ from estimates. Adjustments arising from a change to previously estimated transaction prices were not significant in the three months ended March 31, 2024 or 2023.

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.

The composition of net patient service revenue for the three months ended March 31, 2024 and 2023 is as follows:

Periods Ended March 31	Three Months Ended	
	2024	2023
Commercial	38%	37%
Medicare	40%	41%
Medical Assistance	16%	15%
Self-pay/other	6%	7%
	<b>100%</b>	<b>100%</b>

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.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 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)

## 4. FAIR VALUE MEASUREMENTS

As of March 31, 2024 and December 31, 2023, 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 March 31, 2024 and December 31, 2023. The interest rate swaps are valued using internal models, which are primarily based on market observable inputs, including interest rate curves. When quoted market prices are unobservable for fixed income securities, quotes from independent pricing vendors based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable, are used for valuation purposes. These investments are included in Level 2 and include corporate fixed income, government bonds, and mortgage and asset-backed securities.

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

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## FAIR VALUE MEASUREMENTS AS OF MARCH 31, 2024

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
<b>ASSETS</b>					
Fixed income	\$ 220,109	\$ 2,891,521	\$ -	\$ -	\$ 3,111,630
Domestic equity	939,248	10,605	-	-	949,853
International equity	831,783	-	-	-	831,783
Public real estate	103,768	-	-	-	103,768
Long/short equity	25,373	185,217	-	-	210,590
Absolute equity	(123)	63,677	-	-	63,554
Derivative instruments	-	40	-	-	40
Securities on loan	128,414	-	-	-	128,414
Securities lending collateral	92,296	-	-	-	92,296
Alternative and other investments at NAV	-	-	-	1,565,604	1,565,604
Total assets measured at fair value on a recurring basis	\$ 2,340,868	\$ 3,151,060	\$ -	\$ 1,565,604	\$ 7,057,532
<b>LIABILITIES</b>					
Payable under securities lending agreement	\$ (92,296)	\$ -	\$ -	\$ -	\$ (92,296)
Derivative instruments	-	(88)	-	-	(88)
Total liabilities measured at fair value on a recurring basis	\$ (92,296)	\$ (88)	\$ -	\$ -	\$ (92,384)

## FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2023

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
<b>ASSETS</b>					
Fixed income	\$ 268,853	\$ 3,046,146	\$ -	\$ -	\$ 3,314,999
Domestic equity	938,560	10,420	-	-	948,980
International equity	809,547	-	-	-	809,547
Public real estate	107,146	-	-	-	107,146
Long/short equity	25,411	182,487	-	-	207,898
Absolute equity	(231)	63,581	-	-	63,350
Derivative instruments	-	-	-	-	-
Securities on loan	173,154	-	-	-	173,154
Securities lending collateral	95,382	-	-	-	95,382
Alternative and other investments at NAV	-	-	-	1,548,060	1,548,060
Total assets measured at fair value on a recurring basis	\$ 2,417,822	\$ 3,302,634	\$ -	\$ 1,548,060	\$ 7,268,516
<b>LIABILITIES</b>					
Payable under securities lending agreement	\$ (95,382)	\$ -	\$ -	\$ -	\$ (95,382)
Derivative instruments	-	(244)	-	-	(244)
Total liabilities measured at fair value on a recurring basis	\$ (95,382)	\$ (244)	\$ -	\$ -	\$ (95,626)

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

## 5. 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 \$8,211,602 and \$8,277,332 at March 31, 2024 and December 31, 2023, respectively. As of March 31, 2024 and December 31, 2023, respectively, UPMC had \$3,244,829 and \$3,155,034 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 \$1,246,330 and \$1,269,247 of alternative investments accounted for under the equity method, which approximates fair value, at March 31, 2024 and December 31, 2023, 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 March 31, 2024 and December 31, 2023, respectively, securities loaned, of which UPMC maintains ownership, total \$128,414 and \$173,154, and total collateral (cash and noncash) received related to the securities loaned was \$133,685 and \$181,122.

## 6. DERIVATIVE INSTRUMENTS

UPMC uses derivative financial instruments to manage exposures on its debt. By using derivatives to manage the 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.

UPMC maintains interest rate swap programs on certain of its debt in order to manage its interest rate risk. As of March 31, 2024, and December 31, 2023, UPMC is party to a floating-to-fixed interest rate swap where UPMC receives 68% of a one-month index rate and pays a fixed rate of 3.60% on a notional of \$25,965. As of March 31, 2024, and December 31, 2023, UPMC is also party to a basis swap where UPMC receives 67% of a three-month index rate plus .3217% and pays Securities

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Industry and Financial Markets Association (“SIFMA”) on a notional of \$26,675 and \$30,525, respectively. From origination through June 30, 2023, London Inter-Bank Offered Rate (“LIBOR”) served as the receipt index for both agreements. Effective July 1, 2023, LIBOR ceased to be recognized as a representative index whereupon Secured Overnight Financing Rate (“SOFR”) was selected as the replacement index in accordance with the International Swaps and Derivatives Association (“ISDA”) Fallback Protocols. The aforementioned agreements mature in 2025 and 2037, respectively.

## 7. 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:

	Three Months Ended March 31	
	2024	2023
Service cost	\$ 42,042	\$ 39,531
Interest cost	37,979	37,231
Expected return on plan assets	(48,231)	(44,766)
Recognized net actuarial loss	3,190	3,646
Amortization of prior service credit	(1,314)	(1,314)
Net periodic pension cost	<b>\$ 33,666</b>	<b>\$ 34,328</b>

## 8. LEASES

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

	Mar 31, 2024	Dec 31, 2023
<b>OPERATING LEASES</b>		
Operating lease right-of-use assets	\$ 704,901	\$ 738,064
Other current liabilities	134,507	138,039
Operating lease noncurrent liabilities	673,567	707,447
Total operating lease liabilities	<b>\$ 808,074</b>	<b>\$ 845,486</b>
<b>FINANCE LEASES</b>		
Property, plant and equipment, net	\$ 71,117	\$ 62,139
Current portion of long-term obligations	21,064	19,502
Long-term obligations	51,228	46,181
Total finance lease liabilities	<b>\$ 72,292</b>	<b>\$ 65,683</b>

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Undiscounted maturities of lease liabilities were as follows:

For the Three Months Ended March 31	Operating Leases	Finance Leases
2024 (rest of year)	\$110,329	\$16,164
2025	128,573	17,240
2026	113,631	12,840
2027	90,640	7,960
2028	83,972	4,319
Thereafter	353,529	14,317

## 9. CONTINGENCIES

UPMC is frequently made party to a variety of legal actions and regulatory inquiries, including class actions and suits brought by members, care providers, consumer advocacy organizations, customers and regulators. These matters include medical malpractice, employment, intellectual property, antitrust, privacy and contract claims, claims related to health care benefits coverage and other business practices. UPMC records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of costs resulting from legal and regulatory matters involving UPMC are inherently difficult to predict, particularly where the matters involve indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or represent a shift in regulatory policy; involve a large number of claimants or regulatory bodies; are in the early stages of the proceedings; or could result in a change in business practices. Accordingly, UPMC is often unable to estimate the losses or ranges of losses for those matters where there is a reasonable possibility, or it is probable a loss may be incurred.

Concurrently, UPMC has been involved or is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Government Accountability Office, the Federal Trade Commission, U.S. Congressional committees, the U.S. Department of Justice (DOJ), the IRS, the U.S. Drug Enforcement Administration, the U.S. Department of Labor, the FDIC, Consumer Financial Protection Bureau and other governmental authorities. UPMC records liabilities for estimates of probable cost resulting from these matters where appropriate. Estimates of cost resulting from governmental investigations, audits and reviews are inherently difficult to predict and as a result UPMC cannot reasonably estimate the outcome which may result from these matters given their procedural status.

## 10. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to March 31, 2024 through May 21, 2024, 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 except as follows.

UPMC has undertaken a comprehensive initiative aimed at enhancing operational efficiency and optimizing cost structures. As part of this initiative, UPMC announced in April 2024 a reduction of employment positions which resulted in a severance liability of approximately \$55,000. Because a portion of this severance liability was determined to be made under an existing postemployment benefits policy, the provisions of ASC 712 *Compensation – Nonretirement Postemployment Benefits* were applicable and UPMC recorded approximately \$30,000 of the liability in accrued salaries and related benefits in its condensed consolidated balance sheet as of March 31, 2024. The corresponding expense was recorded within salaries, professional fees and employment benefits in its condensed consolidated statement of operations and changes in net assets for the three months ended March 31, 2024. The remaining \$25,000 was determined to be made under a one-time benefit arrangement and therefore the provisions of ASC 420 *Exit or Disposal Cost Obligations* were applicable and will be recorded in the condensed consolidated financial statements in the three months ended June 30, 2024.