

UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED MARCH 31, 2022



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The following financial data as of March 31, 2022 and for the three-month periods ended March 31, 2022 and 2021 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, 2021 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, 2022

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 and behavioral insurance product offerings, international operations, and its Enterprises division.

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

As the stewards of UPMC's community assets, we are guided by our core values of integrity, excellence, respect and teamwork. These values govern the manner in which we serve our communities and are embedded in the execution and delivery of Life Changing Medicine. By continually evolving and refining UPMC's world-class financial processes, we focus on achieving optimal financial results that support the continued development of our organization, as well as ongoing investment in the future of the communities we serve. We are committed to achieving these objectives with unyielding commitments to transparency in reporting and disclosure, enterprise-wide integration and ongoing process improvement.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2022

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Three Months Ended March 31	2022	2021
Operating revenues	\$ 6,099	\$ 6,019
Operating income	\$ 50	\$ 288
Operating margin %	0.8%	4.8%
Operating margin % (after income tax and interest expense)	0.2%	4.1%
(Loss) gain from investing and financing activities	\$ (242)	\$ 326
Excess of (expenses over revenues) revenues over expenses attributable to controlling interest	\$ (221)	\$ 574
Operating EBIDA	\$ 224	\$ 459
Capital expenditures	\$ 250	\$ 186
Reinvestment ratio	1.44	1.09

Selected Other Information as of	March 31, 2022	December 31, 2021
Total cash and investments	\$ 10,253	\$ 10,697
Unrestricted cash and investments	\$ 8,859	\$ 9,184
Unrestricted cash and investments over long-term debt ¹	\$ 3,005	\$ 3,131
Days of cash on hand	135	148
Days in net accounts receivable	47	46
Average age of plant (in years)	9.9	9.8

¹Excludes \$380 million and \$515 million of Medicare advance funding as of March 31, 2022 and December 31, 2021, respectively, and \$104 million of deferred FICA payments as of March 31, 2022 and December 31, 2021.

In the first quarter, the continued effect of COVID-19, including the most recent surge, along with conditions in the labor and supply markets have resulted in cost growth in employment, staffing and other operating expenses in excess of revenue growth. In the first quarter, UPMC recognized \$32 million of CARES/American Rescue Plan ("ARP") provider relief funding within other operating revenues, compared to \$108 million recognized in the first quarter of the prior year. Refer to Note 2 in the accompanying condensed consolidated financial statements for additional information. UPMC's loss from investing and financing activities for the three months ended March 31, 2022 was \$242 million. UPMC continues to have a long-term perspective with regard to its investment activities. As of March 31, 2022, UPMC had \$10.3 billion of cash and investments, of which approximately \$3.0 billion is held by UPMC's regulated health and captive insurance companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2022

BUSINESS HIGHLIGHTS

In March 2022, UPMC re-opened a renovated and re-designed UPMC Matilda H. Theiss Health Center in Pittsburgh's Hill District neighborhood. The clinic has been a staple of that community for decades, addressing health disparities by bringing services to patients who need it most. In August 2021, the center had been moved to another location on the city's South Side because of safety concerns in the previous building. The new Hill District location is situated along a main thoroughfare of the city and close to multiple public bus lines, making it easy to access. The new clinic provides comprehensive, holistic care to all members of the family, including essential screenings and vaccinations, sick visits, behavioral health services, access to a nutritionist and more in a comforting environment. Local health centers like this one are a key tactic in UPMC's larger strategy to address health disparities in the communities it serves.

In February 2022, UPMC opened the new UPMC Primary and Specialty Care outpatient center in Sewickley, PA. The center aligns with UPMC's mission to provide outlying communities with easier access to UPMC's advanced care. With convenient access to and from Beaver County and UPMC Passavant-McCandless hospital, UPMC Primary and Specialty Care provides a wide range of medical and diagnostic services together under the same roof. The twenty providers at the new location are affiliated with UPMC Passavant hospitals in McCandless and Cranberry Township. Services provided include primary and specialty care, including heart and vascular, neurosurgery, obstetrics and gynecology, orthopaedics, thoracic surgery, urology, women's health and pediatrics.

Construction continues on the new UPMC Mercy Pavilion, which is being designed for the many patients in the Pittsburgh region and beyond who have diseases of the eye or vision impairment or need physical rehabilitation. The state-of-the-art facility in uptown Pittsburgh, whose construction began in 2019, is slated to open in 2023. It is part of UPMC's more than \$2 billion investment in specialty care, and it will position UPMC at the global forefront of rehabilitation and ophthalmic research and clinical services. The pavilion will also offer gene and cell therapies to treat diseases of the eye. Other vision services for patients will include high-resolution imaging and state-of-the-art ocular testing, laser-assisted cataract surgery, micro-invasive ocular surgery and more than 25 scientific teams developing the therapies of tomorrow to fight blindness. In addition, there will be an urgent care eye clinic for eye and vision emergencies with extended hours where patients can access ophthalmologist specialists directly.

UPMC was named as one of the "150 Top Places to Work in Healthcare" for 2022 by *Becker's Healthcare*. For inclusion on this list, hospitals, health systems, and health care companies must demonstrate initiatives and commitment to promote diversity within the workforce, employee engagement, and professional growth. Many honorees on list also were noted for offering substantial wellness and personal benefits for its employees. Over the past year, UPMC has invested more than \$300 million in benefits and compensation support for staff and has been consistently recognized for excellence in supporting health and well-being.

For the fourth year in a row, in March 2022, UPMC was named one of the World's Most Ethical Companies by Ethisphere Institute, an organization focused on defining and advancing the standards of ethical business practices. To be recognized on this list, companies are assessed on company culture, environmental and social practices, focus on diversity, ethics and compliance activities, governance and initiatives to support a strong value chain. One hundred thirty-six companies from 22 countries and 45 industries were honored on the 2022 list. UPMC is one of only two organizations recognized in the integrated health care systems category.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2022

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended March 31, 2022

(in millions)

	Health Services	Insurance Services	Eliminations	Consolidated
Revenues:				
Net patient service revenue	\$ 3,163	\$ -	\$ (708)	\$ 2,455
Insurance enrollment revenue	-	3,133	-	3,133
Other revenue	347	207	(43)	511
Total operating revenues	\$ 3,510	\$ 3,340	\$ (751)	\$ 6,099
Expenses:				
Salaries, professional fees and benefits	\$ 2,070	\$ 134	\$ (30)	\$ 2,174
Insurance claims expense	-	2,867	(708)	2,159
Supplies, purchased services and general	1,329	226	(13)	1,542
Depreciation and amortization	172	2	-	174
Total operating expenses	3,571	3,229	(751)	6,049
Operating income	\$ (61)	\$ 111	\$ -	\$ 50
Operating margin %	(1.7)%	3.3%	-	0.8%
Operating margin % (including income tax and interest expense)	(2.9)%	3.3%	-	0.2%
Operating EBIDA	\$ 111	\$ 113	\$ -	\$ 224
Operating EBIDA %	3.2%	3.4%	-	3.7%

Three Months Ended March 31, 2021

(in millions)

	Health Services	Insurance Services	Eliminations	Consolidated
Revenues:				
Net patient service revenue	\$ 3,080	\$ -	\$ (650)	\$ 2,430
Insurance enrollment revenue	-	2,987	-	2,987
Other revenue	427	212	(37)	602
Total operating revenues	\$ 3,507	\$ 3,199	\$ (687)	\$ 6,019
Expenses:				
Salaries, professional fees and benefits	\$ 1,897	\$ 128	\$ (16)	\$ 2,009
Insurance claims expense	-	2,724	(650)	2,074
Supplies, purchased services and general	1,275	223	(21)	1,477
Depreciation and amortization	168	3	-	171
Total operating expenses	3,340	3,078	(687)	5,731
Operating income	\$ 167	\$ 121	\$ -	\$ 288
Operating margin %	4.8%	3.8%	-	4.8%
Operating margin % (including income tax and interest expense)	3.6%	3.7%	-	4.1%
Operating EBIDA	\$ 335	\$ 124	\$ -	\$ 459
Operating EBIDA %	9.6%	3.9%	-	7.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2022

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 ventures which extend UPMC's core mission and aim to bring new revenue streams into UPMC's domestic operations. International ventures currently include ISMETT, which is a government-approved hospital for end-stage organ disease treatment and research, a network of three hospitals and two UPMC Hillman Cancer Centers across southeast Ireland stretching from Cork to Dublin, Salvator Mundi International Hospital in Rome, UPMC Hillman Cancer Centers in Rome and Campania, as well as management services agreements in China and Kazakhstan.

The decline in operating margin of \$228 million is primarily the result of the continued effects of COVID-19, including the most recent surge, as well as cost growth in excess of revenue growth due to employment, staffing and other operating expenses caused by conditions in the labor and supply markets. Additionally, CARES Provider Relief Funds, ARP and employee retention credit funding recognized in the current year was \$49 million lower than the first quarter of 2021.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have over four million members as of March 31, 2022. 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, and integrated workers' compensation and disability services to employers. Community Care Behavioral Health Organization ("Community Care") is a state-licensed HMO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in Pennsylvania. Community HealthChoices ("CHC") is Pennsylvania's managed care program for individuals who are dual eligible for Medicaid and Medicare or qualify for Medicaid Long Term Services and Supports ("LTSS") and is designed to increase opportunities for older Pennsylvanians and individuals with physical disabilities to remain in their homes and communities rather than in facilities.

Insurance Services operating income for the three months ended March 31, 2022 decreased by \$10 million versus the same period in the prior year. The decrease in operating income is due to medical expenses across product lines.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2022

UPMC Enterprises

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

UPMC Enterprises manages a portfolio that includes various research and product development initiatives and numerous operating companies with commercially available products and services directed toward the improvement of the delivery of health care. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

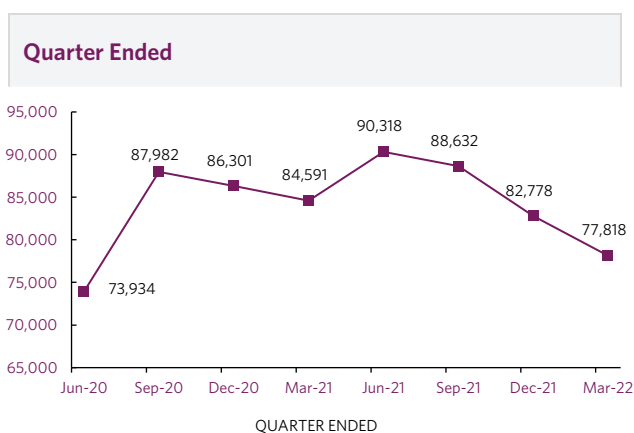
PERIOD ENDED MARCH 31, 2022

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, 2022, decreased 8% compared to the same period in 2021 as volumes declined as a result of rising COVID-19 activity across the regions we serve.

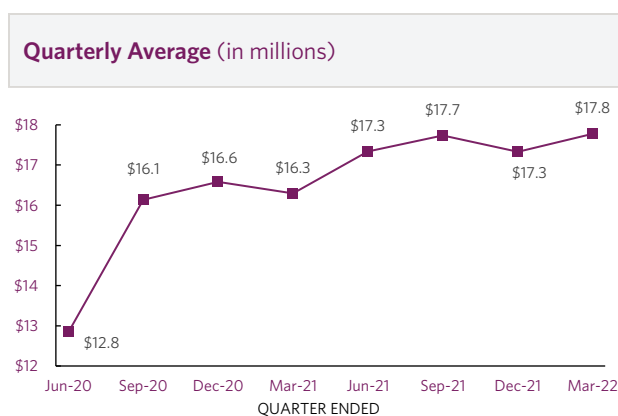
For the Three Months Ended March 31			
<i>(in thousands)</i>	2022	2021	Change
Academic	25.9	27.7	(6)%
Community	11.3	12.9	(12)%
Regional	40.6	44.0	(8)%
Total	77.8	84.6	(8)%



Outpatient Revenue per Workday

UPMC's outpatient activity for the three months ended March 31, 2022, as measured by average revenue per workday, increased 9% compared to the same period in 2021. Increases in revenue per workday from prior periods continue as ambulatory patient volumes continue to increase. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Three Months Ended March 31			
<i>(in thousands)</i>	2022	2021	Change
Academic	\$ 6,509	\$ 6,220	5%
Community	1,819	1,755	4%
Regional	9,450	8,320	14%
Total	\$ 17,778	\$ 16,295	9%



MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2022

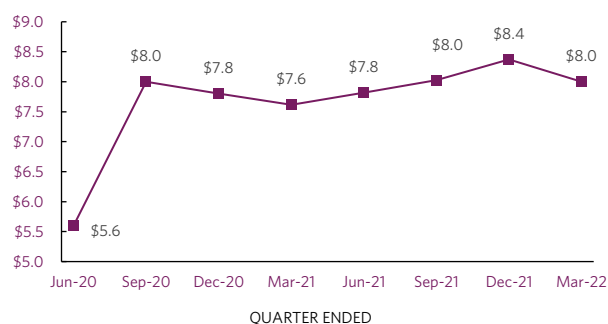
REVENUE METRICS – HEALTH SERVICES (CONTINUED)

Physician Service Revenue per Weekday

UPMC's physician activity for the three months ended March 31, 2022, as measured by average revenue per weekday, increased 6% from the comparable period in 2021. Physician services activity is measured on a weekday basis.

For the Three Months Ended March 31			
<i>(in thousands)</i>	2022	2021	Change
Academic	\$ 3,467	\$ 3,529	(2)%
Community	1,818	1,633	11%
Regional	2,714	2,415	12%
Total	\$ 7,999	\$ 7,577	6%

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.

	Three Months Ended March 31	
	2022	2021
Medicare	48%	47%
Medical Assistance	17%	17%
Commercial Insurers	16%	15%
UPMC Insurance Services Commercial	11%	13%
Self-pay/Other	8%	8%
Total	100%	100%

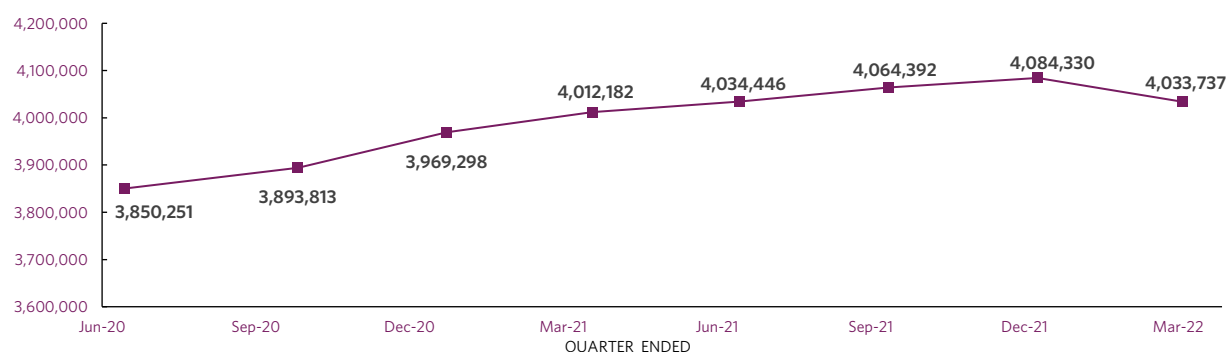
MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2022

OPERATING METRICS - INSURANCE SERVICES

Membership

Membership in the UPMC Insurance Services division was 4,033,737 as of March 31, 2022, a 1% increase versus March 31, 2021. Increases in behavioral health products outpaced the decline in physical health products over the period. Decreases versus December 2021 are primarily due to planned membership changes within Third-Party Administration.

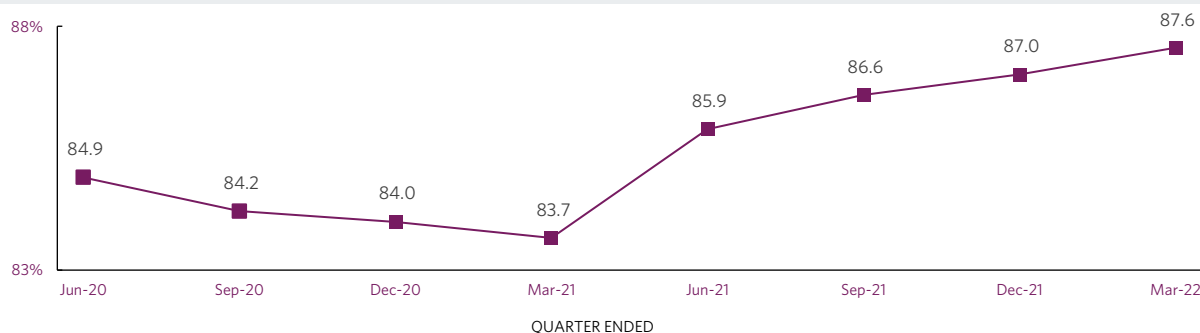


As of	March 31, 2022	March 31, 2021
Commercial Health	609,232	671,434
Medicare	199,657	198,324
Medical Assistance	578,951	539,244
Sub-Total Physical Health Products	1,387,840	1,409,002
Community HealthChoices	134,359	130,342
Behavioral Health	1,287,924	1,187,912
Sub-Total Health Products	2,810,123	2,727,256
WorkPartners and Life Solutions	732,790	733,594
Ancillary Products	476,158	482,940
Third-Party Administration	14,666	68,392
Total Membership	4,033,737	4,012,182

Medical Expense Ratio

UPMC Insurance Services' medical expense ratio for the trailing twelve months has increased to 87.6% as of March 31, 2022 as a result of an increase in medical claims expense in 2021 related to utilization increases. 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, 2022

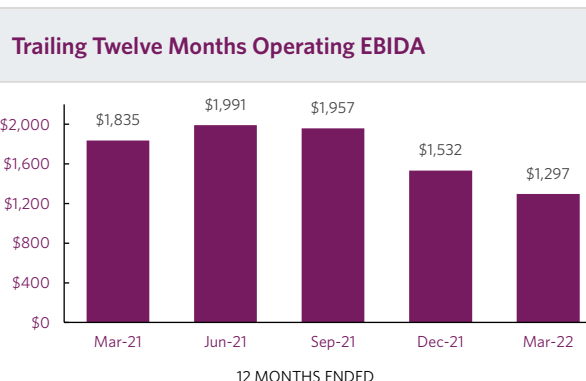
KEY FINANCIAL INDICATORS

(Dollars in millions)

Operating Earnings before Interest, Depreciation and Amortization

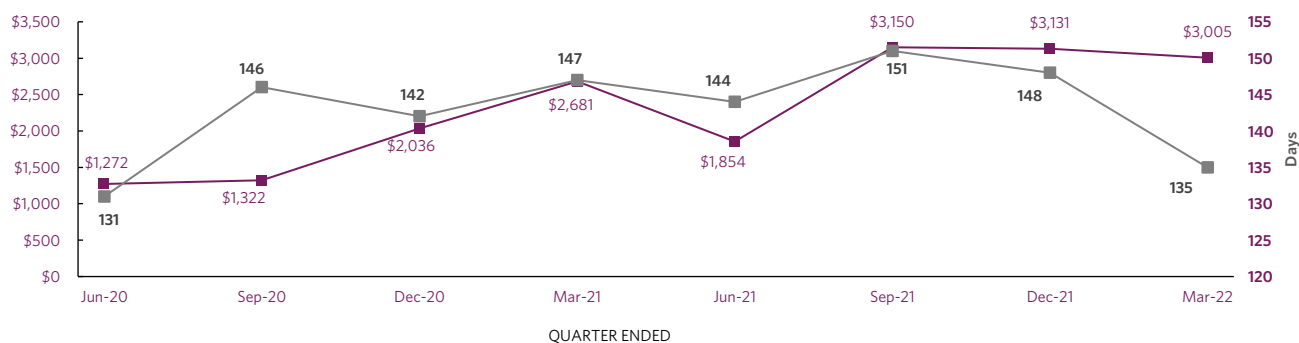
Operating EBIDA for the three months ended March 31, 2022 decreased \$235 million compared to the three months ended March 31, 2021.

For the Three Months Ended March 31			
(in thousands)	2022	2021	Change
Operating Income	\$ 50	\$ 288	(83)%
Depreciation and Amortization	174	171	2%
Operating EBIDA	\$ 224	\$ 459	(51)%



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

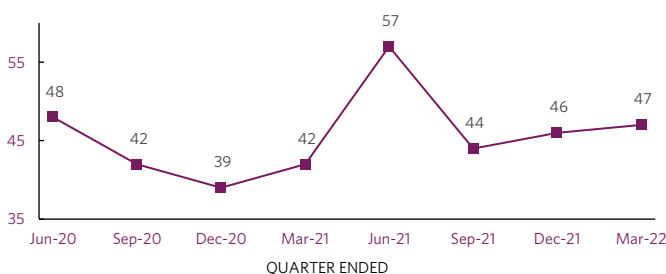
As of March 31, 2022, unrestricted cash and investments over long term debt decreased \$126 million compared to December 31, 2021, due primarily to negative investment returns in 2022. Days cash on hand has likewise decreased versus December 31, 2021, resulting from rising expenses due to inflationary pressures coupled with negative investment returns in 2022.



Days in Net Accounts Receivable

Days in Accounts Receivable at March 31, 2022 and December 31, 2021 were 47 and 46, respectively.

By Receivable	March 2022 Balance	Days	
		Mar 31, 2022	Dec 31, 2021
Patient	\$ 1,444	55	54
Insurance and other	1,730	43	41
Consolidated	\$ 3,174	47	46



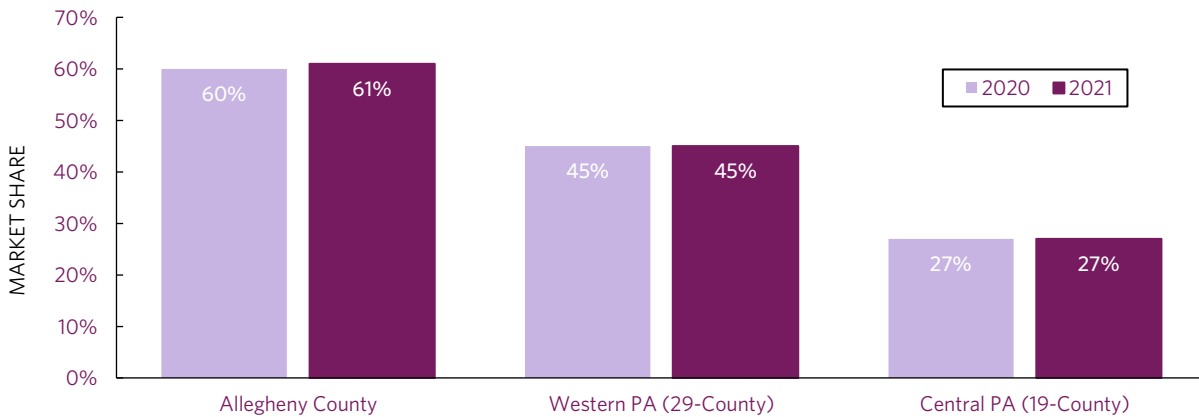
MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2022

MARKET SHARE

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

UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE AS OF SEPTEMBER 30⁽²⁾



⁽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 MARCH 31, 2022

ASSET AND LIABILITY MANAGEMENT

During the three months ended March 31, 2022, UPMC's investment portfolio experienced losses of (4.4)%. As of March 31, 2022, UPMC utilized 175 ongoing external investment managers including 48 traditional managers, 18 hedge fund managers and 109 private capital managers. UPMC is also invested with an additional 34 legacy private capital and hedge fund managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of 3.5%, 8.5% and 7.6% for the trailing one-, three- and five-year periods. As of March 31, 2022, 71% of UPMC's investment portfolio could be liquidated within three days.

UPMC's cost of capital during the three-month period ended March 31, 2022 was 3.0%. 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, 2022, the interest rates on UPMC's long-term debt were approximately 88% fixed and 12% variable after giving effect to derivative contracts. Interest cost for the variable rate debt for the period averaged 1.0%. The interest cost for the fixed rate debt was 3.2%. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of \$600 million. As of March 31, 2022, UPMC had approximately \$82 million in letters of credit outstanding under the credit facility leaving \$518 million available to fund operating and capital needs, none of which was drawn.

In support of the Insurance Services Division, UPMC had credit facilities of \$200 million, \$50 million and \$19 million, the latter of which temporarily increases each year to \$150 million from May 14th to August 15th. As of March 31, 2022, these facilities were undrawn. Each facility expired in April 2022, and subsequently UPMC closed on new credit facilities of \$350 million and \$250 million which expire in 2026 and 2027, respectively.

Subsequent to March 31, 2022, UPMC issued the tax-exempt Series 2022A and Series 2022B bonds to fund capital projects and refund certain indebtedness in the amounts of \$212 million and \$172 million, respectively. Concurrently, UPMC remarketed the tax-exempt Series 2017C and 2017D-2 bonds. Details of the offerings can be found in the official statements/remarketing circulars for each issue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2022

The table below compares reported Investing and Financing Activity for the three months ended March 31, 2022 and 2021 by type.

Investing and Financing Activity by Type

Three Months Ended March 31	2022	2021
<i>(in thousands)</i>		
Realized (loss) gain	\$ (33,273)	\$ 140,408
Interest and dividends, net of fees	27,216	14,679
Realized investment (loss) gain	\$ (6,057)	\$ 155,087
Unrealized gains on derivative contracts	1,095	936
Other unrealized (loss) gain	(163,252)	227,918
Investment (loss) gain	\$ (168,214)	\$ 383,941
Interest expense	(38,902)	(41,466)
UPMC Enterprises activity	(34,772)	(16,259)
(Loss) gain from investing and financing activities	\$ (241,888)	\$ 326,216

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, 2022, UPMC had approximately \$757 million of cash and cash equivalents on hand and borrowing availability under the primary credit facility was \$518 million.

Operating EBIDA was \$224 million for the three months ended March 31, 2022, compared to \$459 million for the three months ended March 31, 2021. Key uses of cash for the three months ended March 31, 2022 include capital expenditures of \$246 million (after excluding any capital acquired through lease arrangements). Major capital projects included construction and improvements at UPMC Pinnacle, UPMC Susquehanna and UPMC Mercy as well as ongoing expansion and improvement across the entirety of UPMC. Major information services projects included enhancements that are advancing UPMC's leading clinician centric computing environment, technology infrastructure that supports UPMC's diversified digital environment, investments in enterprise data analytics and other technologies that are transforming the consumer experience across the spectrum of health care.

UTILIZATION STATISTICS

PERIOD ENDED MARCH 31, 2022

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, 2022 and 2021.

	Three Months Ended March 31	
	2022	2021
Licensed Beds	8,799	8,737
BEDS IN SERVICE		
Medical-Surgical	5,099	5,078
Psychiatric	430	430
Rehabilitation	249	256
Skilled Nursing	1,539	1,557
Total Beds in Service	7,317	7,321
PATIENT DAYS		
Medical-Surgical	349,005	348,395
Psychiatric	28,482	29,579
Rehabilitation	16,883	19,553
Skilled Nursing	98,902	95,615
Total Patient Days	493,272	493,142
Average Daily Census	5,481	5,479
Observation Days	35,779	37,686
Obs Average Daily Census	398	419
ADMISSIONS AND OBSERVATION CASES		
Medical-Surgical	57,468	61,649
Observation Cases	20,350	22,942
Subtotal	77,818	84,591
Psychiatric	2,302	2,724
Rehabilitation	1,053	1,162
Skilled Nursing	930	996
Total Admissions and Observation Cases	82,103	89,473
Overall Occupancy	80%	81%
AVERAGE LENGTH OF STAY		
Medical-Surgical	6.1	5.7
Psychiatric	12.4	10.9
Rehabilitation	16.0	16.8
Skilled Nursing	106.3	96.0
Overall Average Length of Stay	8.0	7.4
Emergency Room Visits	229,637	225,375
TRANSPLANTS (DOMESTIC AND INTERNATIONAL)		
Liver	53	64
Kidney	78	79
All Other	76	83
Total	207	226
OTHER POST-ACUTE METRICS		
Home Health Visits	155,645	183,459
Hospice Care Days	59,181	59,846
Outpatient Rehab Visits	168,038	170,159

OUTSTANDING DEBT

PERIOD ENDED MARCH 31, 2022

(DOLLARS IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$43,598
	UPMC	2007A	38,326
	UPMC	2011A	5,023
	UPMC	2017D	399,735
	UPMC	2019A	771,473
	UPMC	2021B	54,323
Monroeville Finance Authority	UPMC	2012	275,851
	UPMC	2013B	48,383
	UPMC	2014B	43,968
Pennsylvania Economic Development Financing Authority	UPMC	2013A	107,063
	UPMC	2014A	262,721
	UPMC	2015B	113,566
	UPMC	2016	221,918
	UPMC	2017A	422,104
	UPMC	2017B	90,817
	UPMC	2017C	134,636
	UPMC	2020A	272,866
	UPMC	2021A	260,242
Tioga County Industrial Development Authority	Laurel Health System	2010	5,973
	Laurel Health System	2011	4,323
Dauphin County General Authority	Pinnacle Health System	2012A	135,776
	Pinnacle Health System	2016A	96,916
	Pinnacle Health System	2016B	82,950
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	5,223
	Hanover Hospital	2015	21,826
Potter County Hospital Authority	UPMC	2018A	15,336
Somerset County Hospital Authority	Somerset Hospital	2009	634
Maryland Health and Higher Educational Facilities Authority	UPMC	2020B	201,285
None	UPMC	2020D	349,640
	UPMC	2020 Term Loans	499,909
	UPMC	2021C	399,403
	Somerset Management Services	2013	1,485
	Various	Financing Leases & Loans	128,887
		Swap Liabilities	2,366
Total			\$5,518,545

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

Source: UPMC Records

DEBT COVENANT CALCULATIONS

PERIOD ENDED MARCH 31, 2022

DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

	Trailing Twelve-Month Period Ended March 31, 2022	
Excess of revenues over expenses	\$	665,474
ADJUSTED BY:		
Net Unrealized Losses during Period ⁽¹⁾		143,374
Depreciation and Amortization ⁽¹⁾		691,489
Loss on Extinguishment of Debt ⁽¹⁾		2,382
Realized Investment Impairments ⁽²⁾		(15,209)
Interest Expense ⁽³⁾		158,110
Revenues Available for Debt Service	\$	1,645,620
Historical Debt Service Requirements - 2007 MTI	\$	346,275
Debt Service Coverage Ratio - 2007 MTI		4.75X
Historical Debt Service Requirements - All Debt and Finance Leases	\$	386,339
Debt Service Coverage Ratio - All Debt and Finance Leases		4.26X

LIQUIDITY RATIO AS OF MARCH 31, 2022

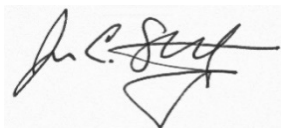
Unrestricted Cash and Investments	\$	8,858,756
Master Trust Indenture Debt		5,133,303
Unrestricted Cash to MTI Debt		1.73

⁽¹⁾ Non-Cash.

⁽²⁾ Reflects ultimate realization of previously impaired cost-based investments.

⁽³⁾ Includes only interest on long-term debt.

I hereby certify to the best of my knowledge that, as of March 31, 2022, 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, 2022



Ernst & Young LLP
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Review Report of Independent Auditors

**The Board of Directors
UPMC
Pittsburgh, Pennsylvania**

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, 2022, and the related condensed consolidated statements of operations and changes in net assets, and cash flows for the three-month periods ended March 31, 2022 and 2021, 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 Consolidated Balance Sheet as of December 31, 2021

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, 2021, 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 28, 2022. In our opinion, the accompanying condensed consolidated balance sheet of



the Company as of December 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Ernst & Young LLP

May 27, 2022

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(DOLLARS IN THOUSANDS)

	As of	
	March 31, 2022	December 31, 2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 756,841	\$ 930,376
Patient accounts receivable	1,443,904	1,404,695
Insurance and other receivables	1,729,954	1,634,524
Other current assets	726,981	591,570
Total current assets	4,657,680	4,561,165
Board-designated, restricted, trustee and other investments	9,495,760	9,766,549
Beneficial interests in foundations and trusts	756,934	783,779
Net property, buildings and equipment	6,317,491	6,210,596
Operating lease right-of-use assets	958,064	976,026
Other assets	760,002	790,300
Total assets	\$ 22,945,931	\$ 23,088,415
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 834,811	\$ 783,477
Accrued salaries and related benefits	1,079,813	963,076
Current portion of insurance reserves	1,044,365	1,018,418
Current portion of long-term obligations	282,350	280,793
Other current liabilities	1,562,886	1,571,781
Total current liabilities	4,804,225	4,617,545
Long-term obligations	5,236,195	5,300,849
Long-term insurance reserves	431,145	429,182
Operating lease noncurrent liabilities	875,575	895,949
Other noncurrent liabilities	579,738	566,530
Total liabilities	11,926,878	11,810,055
Net assets without donor restrictions	9,657,508	9,883,697
Net assets with donor restrictions	1,361,545	1,394,663
Total net assets	11,019,053	11,278,360
Total liabilities and net assets	\$ 22,945,931	\$ 23,088,415

See accompanying notes

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

(DOLLARS IN THOUSANDS)

Three Months Ended March 31

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net patient service revenue	\$ 2,454,581	\$ 2,430,099
Insurance enrollment revenue	3,133,929	2,987,390
Other revenue	510,862	602,008
Total operating revenues	6,099,372	6,019,497
Salaries, professional fees and employee benefits	2,174,377	2,009,363
Insurance claims expense	2,159,112	2,073,695
Supplies, purchased services and general	1,542,257	1,477,444
Depreciation and amortization	173,242	171,142
Total operating expenses	6,048,988	5,731,644
Operating income	50,384	287,853
Academic and research support provided	(60,000)	(57,575)
Other non-operating activities	30,375	21,299
Income tax expense	(1,462)	(1,778)
After-tax income	\$ 19,297	\$ 249,799
Investing and financing activities:		
Investment (loss) gain	(168,214)	383,941
Interest expense	(38,902)	(41,466)
UPMC Enterprises activity:		
Portfolio company revenue and net gains from sales	11,911	31,566
Portfolio company and research and development expense	(46,683)	(47,825)
(Loss) gain from investing and financing activities	(241,888)	326,216
Excess of (expenses over revenues) revenues over expenses	(222,591)	576,015
Excess of (expenses over revenues) revenues over expenses attributable to noncontrolling interest	(1,556)	2,498
Excess of (expenses over revenues) revenues over expenses attributable to controlling interest	(221,035)	573,517
Net change in pension liability and other	(5,154)	(925)
Change in net assets without donor restrictions	(226,189)	572,592
NET ASSETS WITH DONOR RESTRICTIONS		
Net contributions and other changes	1,633	3,274
Net realized and unrealized (losses) gains on restricted investments	(6,225)	8,907
Assets released from restriction for operations and capital purchases	(1,681)	(3,349)
Change in beneficial interests in foundations and trusts	(26,845)	27,721
Change in net assets with donor restrictions	(33,118)	36,553
Change in total net assets	(259,307)	609,145
Net assets, beginning of period	11,278,360	9,421,190
Net assets, end of period	\$ 11,019,053	\$ 10,030,335

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

Three Months Ended March 31

	2022	2021
OPERATING ACTIVITIES		
(Decrease) increase in total net assets	\$ (259,307)	\$ 609,145
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	173,242	171,142
Change in beneficial interest in foundations and trusts	26,845	(27,721)
Restricted contributions and investment losses (gains)	4,592	(12,181)
Unrealized losses (gains) on investments	163,252	(227,918)
Realized losses (gains) on investments	6,057	(155,087)
Net changes in non-alternative investments	63,432	(601,569)
Changes in operating assets and liabilities:		
Accounts receivable	(134,639)	(141,577)
Other current assets	(135,411)	(267,101)
Accounts payable and accrued liabilities	168,071	165,952
Insurance reserves	27,910	(11,299)
Other current liabilities	(8,895)	491,366
Other noncurrent assets and liabilities	(7,166)	(126,791)
Other operating changes	(41,632)	(31,717)
Net cash provided by (used in) operating activities	46,351	(165,356)
INVESTING ACTIVITIES		
Purchase of property and equipment	(246,158)	(170,180)
UPMC Enterprises investments in non-consolidated entities	326	(16,700)
Net change in investments designated as nontrading	46,171	(6,360)
Net change in alternative investments	(7,263)	(31,604)
Net change in other assets	53,752	28,581
Net cash used in investing activities	(153,172)	(196,263)
FINANCING ACTIVITIES		
Repayments of long-term obligations	(70,472)	(79,035)
Borrowings of long-term obligations	8,350	38,647
Restricted contributions and investment (losses) gains	(4,592)	12,181
Net cash used in financing activities	(66,714)	(28,207)
Net change in cash and cash equivalents	(173,535)	(389,826)
Cash and cash equivalents, beginning of period	930,376	1,541,036
Cash and cash equivalents, end of period	\$ 756,841	\$ 1,151,210
SUPPLEMENTAL INFORMATION		
Finance lease obligations incurred to acquire assets	\$ 4,123	\$ 15,324
<i>See accompanying notes</i>		

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

1. BASIS OF PRESENTATION

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. The accompanying unaudited interim condensed consolidated financial statements include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. For further information, refer to the audited consolidated financial statements and notes thereto as of and for the twelve-month period ended December 31, 2021.

2. COVID-19

In March 2020 and March 2021, the federal government enacted the CARES Act and the American Rescue Plan ("ARP"), respectively, that provide, among other funding sources, relief funds to hospitals and other health care providers on the front lines of the COVID-19 response. This funding has been used to support health care related expenses or lost revenue attributable to COVID-19. Beginning in April 2020, over 90 individual UPMC facilities received an aggregate of approximately \$782,000 of federal funding through March 31, 2022. Approximately \$32,000 was recognized as other revenue for the three months ended March 31, 2022, and \$644,000 was recognized in prior years, including \$108,000 for the three months ended March 31, 2021. The remaining amounts received will be evaluated for recognition in future periods. UPMC and its subsidiaries have and expect to continue to experience an impact on operations as a result of the COVID-19 pandemic.

In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, the Centers for Medicare & Medicaid Services ("CMS") expanded the current Accelerated and Advance Payment Program. Beginning in April 2020, CMS provided advance funding that aggregated to a total of approximately \$840,000 to 185 individually identified UPMC entities. In October 2020, a bill was signed into law which changed the original Medicare loan repayment terms for health care providers allowing recoupment to begin one year after the Medicare Accelerated and Advance Payment Program loan was issued. Recoupment began in April 2021 and the recovery period is estimated to be approximately 18 months from that date. As of March 31, 2022, \$460,000 of the advance funding has been recouped by CMS. Additionally, the CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security/FICA taxes. As part of this deferral program, UPMC currently has \$104,000 of deferred FICA payments as of March 31, 2022. Remaining repayment to the federal government will occur in December 2022.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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 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 three months ended March 31, 2022 or 2021.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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

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

The composition of net patient service revenue for the three months ended March 31, 2022 and 2021 is as follows:

Periods Ended March 31	2022	2021
Commercial	37%	39%
Medicare	41%	38%
Medical Assistance	15%	15%
Self-pay/other	7%	8%
	100%	100%

Laws and regulations governing the Medicare and Medical Assistance programs are complex and subject to interpretation. UPMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing, 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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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. Revenue recognized related to the CARES Act and the ARP funding is captured in other revenue.

5. FAIR VALUE MEASUREMENTS

As of March 31, 2022 and December 31, 2021, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents and certain board-designated, restricted, trustee, and other investments and derivative instruments. Certain alternative investments are measured using the equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, includes:

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

The following tables represent UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2022 and December 31, 2021. 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, 2022

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 964,710	\$ 2,666,515	\$ -	\$ -	\$ 3,631,225
Domestic equity	1,445,061	9,821	-	-	1,454,882
International equity	803,166	-	-	-	803,166
Public real estate	138,442	-	-	-	138,442
Long/short equity	66,595	10,067	-	-	76,662
Absolute equity	50,573	-	-	-	50,573
Securities on loan	360,508	-	-	-	360,508
Securities lending collateral	245,197	-	-	-	245,197
Alternative and other investments at NAV	-	-	-	1,823,543	1,823,543
Total assets measured at fair value on a recurring basis	\$ 4,074,252	\$ 2,686,403	\$ -	\$ 1,823,543	\$ 8,584,198
LIABILITIES					
Payable under securities lending agreement	\$ (245,197)	\$ -	\$ -	\$ -	\$ (245,197)
Derivative instruments	-	(2,366)	-	-	(2,366)
Total liabilities measured at fair value on a recurring basis	\$ (245,197)	\$ (2,366)	\$ -	\$ -	\$ (247,563)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2021

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 1,041,729	\$ 2,911,201	\$ -	\$ -	\$ 3,952,930
Domestic equity	1,490,595	9,760	-	-	1,500,355
International equity	873,730	-	-	-	873,730
Public real estate	137,364	-	-	-	137,364
Long/short equity	73,485	15,173	-	-	88,658
Absolute equity	54,195	-	-	-	54,195
Derivative instruments	-	222	-	-	222
Securities on loan	203,256	-	-	-	203,256
Securities lending collateral	117,873	-	-	-	117,873
Alternative and other investments at NAV	-	-	-	1,842,828	1,842,828
Total assets measured at fair value on a recurring basis	\$ 3,992,227	\$ 2,936,356	\$ -	\$ 1,842,828	\$ 8,771,411
LIABILITIES					
Payable under securities lending agreement	\$ (117,873)	\$ -	\$ -	\$ -	\$ (117,873)
Derivative instruments	-	(3,683)	-	-	(3,683)
Total liabilities measured at fair value on a recurring basis	\$ (117,873)	\$ (3,683)	\$ -	\$ -	\$ (121,556)

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 revenue in the condensed consolidated statements of operations and changes in net assets. Unrealized gains and losses on donor-restricted assets are recorded as changes in net assets with donor restrictions in the condensed consolidated statements of operations and changes in net assets. Gains and losses on the sales of securities are determined by the average cost method. Realized gains and losses are included in investment (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 \$9,095,842 and \$9,583,692 at March 31, 2022 and December 31, 2021, respectively. As of March 31, 2022 and December 31, 2021, respectively, UPMC had \$2,951,355 and \$2,908,520 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 \$1,156,759 and \$1,113,233 of alternative investments accounted for under the equity method, which approximates fair value, at March 31, 2022 and December 31, 2021, 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, 2022 and December 31, 2021, respectively, securities loaned, of which UPMC maintains ownership, total \$360,508 and \$203,256, and total collateral (cash and noncash) received related to the securities loaned was \$373,122 and \$213,284.

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.

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

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(DOLLARS IN THOUSANDS)

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

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
				Mar 31, 2022	Dec 31, 2021
Floating to fixed	2025	3.60%	68% one-month LIBOR	\$ 49,280	\$ 49,280
Basis	2037	SIFMA Index	67% three-month LIBOR plus .3217%	38,450	46,095
Floating to fixed	2024	1.413%	67% one-month LIBOR	-	7,500
				\$ 87,730	\$ 102,875

Pursuant to master netting arrangements, UPMC has the right to offset the fair value of amounts recognized for derivatives, including the right to reclaim or obligation to return cash collateral from/to counterparties. The fair values of UPMC's derivative financial instruments are presented below, representing the gross amounts recognized as of March 31, 2022 and December 31, 2021, which are not offset by counterparty or type of item hedged:

	Mar 31, 2022	Dec 31, 2021
Other assets	\$ -	\$ 222
Long-term obligations	(2,366)	(3,683)
	\$ (2,366)	\$ (3,461)

The accounting for changes in the fair value (i.e., unrealized gains or losses) of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. None of UPMC's derivatives outstanding as of March 31, 2022 and December 31, 2021 are designated as hedging instruments and as such, changes in fair value are recognized in investing and financing activities as investment (loss) gain in the condensed consolidated statements of operations and changes in net assets. Certain of UPMC's derivatives contain provisions that require UPMC's debt to maintain an investment grade credit rating from certain major credit rating agencies. If UPMC's debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivatives could request payment or demand immediate and ongoing full overnight collateralization on derivatives in net liability positions.

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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:

	Three Months Ended March 31	
	2022	2021
Service cost	\$ 44,885	\$ 43,505
Interest cost	22,420	19,163
Expected return on plan assets	(52,094)	(47,846)
Recognized net actuarial loss	-	7,070
Amortization of prior service credit	(1,314)	(1,314)
Net periodic pension cost	\$ 13,897	\$ 20,578

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:

	Mar 31, 2022	Dec 31, 2021
OPERATING LEASES		
Operating lease right-of-use assets	\$ 958,064	\$ 976,026
Other current liabilities	128,372	127,194
Operating lease liabilities	875,575	895,949
Total operating lease liabilities	\$ 1,003,947	\$ 1,023,143
FINANCE LEASES		
Property, plant and equipment, net	\$ 58,117	\$ 60,501
Other current liabilities	24,150	24,555
Other noncurrent liabilities	44,849	47,269
Total finance lease liabilities	\$ 68,999	\$ 71,824

Undiscounted maturities of lease liabilities were as follows:

For the Three Months Ended March 31	Operating Leases	Finance Leases
2022 (rest of year)	\$111,804	\$18,466
2023	138,554	17,086
2024	120,912	9,057
2025	102,796	4,138
2026	92,076	2,040
Thereafter	613,284	24,537

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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 timely responded to that CID. In November 2013, the DOJ advised UPMC that the CID had been served as part of the DOJ’s investigation of allegations asserted by Relators in a federal qui tam lawsuit filed under seal. On July 27, 2016, the DOJ announced that it had reached an agreement with UPMC to settle certain allegations that UPMC had violated the False Claims Act for approximately \$2,500. UPMC admitted no liability in settling those claims. The DOJ declined to intervene in the remaining allegations of the Relators’ lawsuit, which was also unsealed on July 27, 2016. In their Second Amended Complaint against UPMC and UPP, Inc., Relators allege that UPMC violated the False Claims Act by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. After fact discovery and expert discovery concluded, motions for summary judgment were filed in October 2021 with briefing concluding in December 2021. The outcome and ultimate effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On July 29, 2019, UPMC received two grand jury subpoenas and an unexecuted search warrant from the DOJ seeking various records from one of UPMC’s clinical departments. On or about September 2, 2021, the United States filed a Complaint in Partial Intervention against UPMC, UPP and a UPMC cardiothoracic surgeon, in the matter previously filed under seal in the United States District Court of the Western District of Pennsylvania as U.S. ex. rel. Jonathan D’Cunha, M.D. v. UPMC et al, alleging that the Defendants violated the False Claims Act by, inter alia, performing concurrent surgeries. UPMC plans to zealously defend against the United States’ claims. On November 1, 2021, Defendants moved to dismiss the United States’ claims, contending, among other things, that no federal regulations prohibit the surgeons from conducting concurrent or overlapping surgeries in the manner that they do. The American Hospital Association (“AHA”) and the Hospital & Healthsystem Association of Pennsylvania (“HAP”) filed a friend-of-the-court brief in support of the Defendants’ motion, which criticized the government’s attempt to impose its “own view of proper medicine” over hospitals, particularly when experts have deemed such surgeries to be safe and a practice that allows more patients to receive necessary health care. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On or about December 15, 2020, a current employee filed a claim against UPMC, the University of Pittsburgh and other defendants, contending that the Defendants retaliated against him for authoring an article asserting that the medical profession discriminates against applicants from underrepresented races and ethnicities. On April 11, 2021, the UPMC Defendants moved to dismiss most of the claims in the Complaint. On December 21, 2021, the Court entered an Order granting the UPMC Defendants’ motion in part and denying it in part and provided the employee with leave to amend certain of his claims. On January 11, 2022, the employee filed an Amended Complaint that would ultimately assert two claims. On January 25, 2022, the UPMC Defendants moved to dismiss one of the claims and answered the other. On April 4, 2022, the Court denied the UPMC Defendants’ motion to dismiss. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On or about March 9, 2021, Vince Ranalli and Lou Ranalli filed a putative class action in the Allegheny County Court of Common Pleas against UPMC and a local law firm that UPMC had retained. The lawsuit alleges that a data breach at the law firm exposed the plaintiffs’ personal medical and financial information. Michael Bowen was later substituted as the named plaintiff. The parties have reached a tentative settlement that, when finalized, will result in no material impact to UPMC’s financial condition.

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11. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to March 31, 2022 through May 27, 2022, the date the unaudited interim condensed consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition or disclosure in the condensed consolidated financial statements except as noted below.

Subsequent to March 31, 2022, UPMC issued the tax-exempt Series 2022A and Series 2022B bonds in the amounts of approximately \$212,000 and \$172,000, respectively, to fund capital projects and refund certain indebtedness.