



**UNAUDITED QUARTERLY DISCLOSURE STATEMENT
FOR THE PERIOD ENDED DECEMBER 31, 2008**

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 in the table below and disclosure obligations in connection with UPMC's bank line of credit. The information contained herein is as of December 31, 2008. Digital Assurance Certification, L.L.C., as Dissemination Agent, has not participated in the preparation of this Quarterly Report, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.

Issuer	Bonds	Original Borrower	Series
Allegheny County Hospital Development Authority	Health Center Revenue, Health Center Revenue Refunding and UPMC Health System Revenue Bonds	Presbyterian Hospital	1988B
		UPMC Health System	1990
		Magee-Womens Hospital	1993
		UPMC Health System	1997B
		UPMC Health System	1998B
		UPMC Health System	1999B
		UPMC	2003B
		UPMC	2005B
		UPMC	2006A
		UPMC	2007A
		UPMC	2007B
		UPMC	2007C
		UPMC	2007D
		UPMC	2008A
		UPMC	2008B
		UPMC	2008
Pennsylvania Higher Educational Facilities Authority	UPMC Health System Revenue Bonds	UPMC Health System	1999A
		UPMC Health System	2001A
Allegheny County Industrial Development Authority	Variable Rate Demand Refunding Bonds	UPMC	2004A

The following financial data as of and for the six-month periods ended December 31, 2008 and 2007 is derived from the unaudited consolidated internal financial statements of UPMC. The unaudited consolidated internal financial statements include all adjustments consisting of normal recurring accruals that UPMC considers necessary for a fair presentation of the financial position and the results of operations for these periods. The financial information as of and for the twelve-month period ended June 30, 2008 is derived from UPMC's audited consolidated financial statements. Operating results for the six-month period ended December 31, 2008 are not necessarily indicative of the results that may be expected for any future periods.

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Highlights

UPMC is an integrated global health enterprise headquartered in Pittsburgh, Pennsylvania and one of the leading nonprofit health systems in the United States. Through December 31, 2008, UPMC's financial results reflect continued reinvestment to fulfill its commitment of providing outstanding patient care while shaping tomorrow's health system.

For the six months ended December 31, 2008, operating revenues increased by \$472 million (14%) to \$3.8 billion, due primarily to increases in insurance services membership, revenue from hospital admissions, outpatient services volume and the integration of UPMC Mercy. Operating income, which is reinvested in programs that support UPMC's mission, was \$103 million for the period, \$3 million (3.0%) higher than the same period one year ago. Operating earnings before interest, depreciation and amortization totaled \$280 million, compared to \$260 million in the prior period. As of December 31, 2008, UPMC had \$2.6 billion of cash and investments.

UPMC continues to attract increasing numbers of patients, physicians and insurance services members:

- Total admissions were up 10% to 93,614 for the six months ended December 31, 2008, primarily as a result of admissions to UPMC Mercy.
- Inpatient activity as measured by medical-surgical admissions was up 10.4% for the six-month period.
- Outpatient revenue per workday rose 14%, while physician service revenue per weekday increased 16%.
- Enrollment in UPMC's insurance services grew 9% to more than 1.3 million members.

UPMC's investment loss for the six-month period was (\$786) million. This was composed primarily of a portfolio return of (22.1%) and mark-to-market adjustments for interest rate swaps used for debt management purposes. The portfolio return is approximately 3% higher than the benchmarks UPMC uses to measure investment performance for the six month period. UPMC has made no changes to its asset allocation policies and continues to have a long term perspective to its investment activities.

During the six months ended December 31, 2008, UPMC made capital expenditures of \$294 million. Significant components included:

- Ongoing construction costs of \$91 million for the new Children's Hospital and research complex on the site of the former St. Francis Hospital in Lawrenceville. The research complex opened in November 2008 and the hospital is scheduled to open in May 2009.
- \$34 million of construction costs related to the development of the UPMC Passavant campus.
- Expenditures of \$44 million on various components of UPMC's best-in-class information technology platform.

In December, the Monroeville Borough Council approved UPMC's plan to build a 120-bed hospital on the site of the former Palace Inn. The hospital is intended to meet the demands from patients and physicians in the eastern suburbs of Pittsburgh for UPMC's high-quality, patient-focused care in a new facility. In addition to an emergency department, services are expected to include cancer care, inpatient and outpatient surgery, imaging, endoscopy and cardiac diagnostic testing. Site preparation is expected to begin in the next few months.

UPMC continued to recruit high profile physicians to lead its acclaimed clinical programs. Dr. Abhinav Humar, a nationally recognized expert in abdominal transplantation, was appointed clinical director of the Thomas E. Starzl Transplantation Institute and chief of the Division of Transplantation in the Department of Surgery at UPMC, while Dr. Nancy E. Davidson, an expert in breast cancer research and treatment, was named director of the University of Pittsburgh Cancer Institute (UPCI) at the University of Pittsburgh and UPMC. In addition, a number of physicians with extensive regional practices joined UPMC from West Penn Allegheny Health System. They are: Dr. Gary Lemoncelli, Dr. Alan Steckel, Dr. Thomas Wein, Dr. Ellen Berne, Dr. Michele Organist, Dr. M. Lance Weaver, Dr. James Valuska Jr. and Dr. Thomas Lheureau.

In December, UPMC Presbyterian became one of only 24 U.S. hospitals recognized for its advanced use of a comprehensive electronic medical record (EMR). HIMSS Analytics, a unit of the Healthcare Information and Management Systems Society, has previously awarded its “Stage 6” recognition to Children’s Hospital of Pittsburgh of UPMC, underscoring the health system’s commitment to adopting EMR technology to improve patient safety.

During the quarter, *U.S. News & World Report* published its annual survey of more than 250 ranked health plans once again recognizing UPMC Insurance Services Plans among the nation’s best, including UPMC Health Plan (41st among all Commercial Plans), UPMC For Life (19th among all Medicare Plans), and UPMC For You (13th among all Medicaid Plans). Rankings are based on clinical quality, member satisfaction, and adherence to accreditation standards promulgated by the National Committee for Quality Assurance (NCQA). All these Plans have also received an “Excellent” accreditation by NCQA, the highest honor a managed care company can earn.

The Commonwealth of Pennsylvania granted UPMC McKeesport a waiver to perform elective percutaneous coronary intervention (PCI), also known as angioplasty. The waiver was granted based on the hospital’s participation in the Atlantic Cardiovascular Patient Outcomes Research Team Clinical Trial (C-PORT). The purpose of the study is to determine if there are differences in the outcomes of PCI when performed in hospitals that do not offer cardiac surgery versus hospitals with heart surgery capabilities.

UPMC continued to enhance UPMC Mercy’s existing facilities and expand its subspecialty service capabilities. A key component of this plan will be an expansion of existing physical rehabilitation services to create a major rehabilitation center of excellence at UPMC Mercy. As part of this process, UPMC South Side, currently home to the Institute for Rehabilitation and Research, will merge with UPMC Mercy. After renovations to the UPMC Mercy campus are completed, rehabilitation beds and other inpatient services at UPMC South Side will be relocated to UPMC Mercy or other UPMC hospitals.

UPMC and GE Healthcare, part of the General Electric Company, in November announced a collaboration to develop cancer centers internationally. With GE providing medical equipment, service, and market expertise, UPMC expects to bring advanced cancer care to more than 25 locations in Europe, Asia and the Middle East over the next decade.

UPMC received an unqualified audit opinion on both its financial statements and internal controls over financial reporting within 60 days of the end of its 2008 fiscal year and posted its audited financial statements to its web site within 75 days. The timely issuance of these statements highlights UPMC’s commitment to the quality and accuracy of providing financial information to its various stakeholders. The 2008 fiscal year is the third consecutive year that UPMC has voluntarily complied with all of the applicable provisions of Sarbanes Oxley.

Organizational Overview

UPMC, doing business as the University of Pittsburgh Medical Center, is one of the world's leading integrated global health enterprises. UPMC is based in Pittsburgh, Pennsylvania, and primarily serves residents of western Pennsylvania. It also draws patients for highly specialized services from across the nation and around the world. UPMC's 20 hospitals and more than 400 clinical locations comprise one of the largest nonprofit health systems in the United States. UPMC has three major operating components: Provider Services, Insurance Services and International and Commercial Services. To support these operating components, UPMC has an array of integrated enterprise capabilities, including information services, human resources, regulatory/compliance, finance, treasury, risk management, facilities, quality and community relations. The costs of these services are allocated to the operating components.

Provider Services

UPMC's Provider Services include a comprehensive array of clinical capabilities consisting of hospitals, specialty service lines (e.g., transplantation services, woman care, behavioral health, pediatrics, cancer care and rehabilitation services), contract services (emergency medicine, pharmacy and laboratory) and more than 2,700 employed physicians with associated practices. Also included within Provider 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 are located in Pittsburgh; (ii) community hospitals that provide core clinical services mainly to the suburban Pittsburgh population; (iii) regional hospitals that provide core clinical services to broader areas of the western Pennsylvania region; and (iv) pre- and post-acute care capabilities 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.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have 1.3 million members. UPMC Health Plan is a health maintenance organization (HMO) offering coverage for commercial and Medicare members. UPMC for You is also an HMO, which is engaged exclusively in providing coverage to Medical Assistance beneficiaries. UPMC Health Network offers preferred provider organization (PPO) plan designs to serve both commercial and Medicare beneficiaries. UPMC for Life is a Medicare product line offered by various companies within the Insurance Services division. UPMC Work Partners provides integrated workers' compensation and disability services to employers. Community Care Behavioral Health Organization (Community Care) is a state-licensed, risk-bearing PPO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in 35 Pennsylvania counties, including Allegheny County.

International and Commercial Services

The goal of UPMC's International and Commercial Services division is to leverage UPMC's capabilities to generate new revenue streams. This is accomplished by exporting medical expertise and management know-how internationally, pursuing commercialization opportunities and developing strategic partnerships with industry leaders, including the recently announced dialysis partnership. These ventures both support UPMC's core mission and help to revitalize the economy of western Pennsylvania. The first of the major international ventures, ISMETT, a transplant and specialty surgery hospital in Palermo, Italy, has performed more than 768 transplants since its founding in 1999. Other international ventures currently include two cancer centers and a private hospital in Ireland, an emergency medical system in Qatar and information technology development in the United Kingdom.

Consolidated Financial Highlights

(DOLLARS IN MILLIONS)

Financial Results for the Six-Month Periods Ended December 31		
	<u>2008</u>	<u>2007</u>
Operating Revenues	\$3,846	\$3,374
Operating Income	\$103	\$100
Operating Margin	2.7%	3.0%
Investment and Financing (Loss) Income	(\$786)	\$3
Excess of Revenues Over (under) Expenses	(\$689)	\$101
Operating EBIDA	\$280	\$260
Capital Expenditures	\$294	\$243
Reinvestment Ratio	1.61	1.52
Selected Other Information as of and for the Periods Ended		
	<u>December 31, 2008</u>	<u>June 30, 2008</u>
Total Cash and Investments	\$2,632	\$3,240
Unrestricted Cash and Investments	\$2,229	\$2,730
Unrestricted Cash and Investments Over (Under) Long Term Debt	(\$491)	\$312
Days of Cash on Hand	117	155
Days in Accounts Receivable	33	34
Average Age of Plant	8.0	8.0

▪ **Operating revenues increased by 14% or \$472 million.**

▪ **UPMC generated \$280 million of operating earnings before interest, depreciation and amortization (“Operating EBIDA”).**

▪ **Total Cash and Investments, Unrestricted Cash and Investments and related ratios declined due to the overall decline of the equity market.**

- Operating revenues for the six months ended December 31, 2008 increased \$472 million (14%) as compared to the six months ended December 31, 2007 due to a \$237 million increase in Insurance Services operating revenue driven primarily by higher membership. The remainder of the increase in operating revenues was generated from the addition of UPMC Mercy, Provider Services volumes, and inflationary increases in payor contracts.
- Operating income increased \$3 million from the prior year primarily due to improved Insurance Services results which more than offset increased International and Commercial Services development costs.
- Investment and financing loss of \$786 million for the six-month period reflects a loss on UPMC’s investment portfolio of (22.1%), interest expense, derivative mark-to-market adjustments and loss on refinancing.
- UPMC funded \$294 million of capital expenditures to enhance information technology, create new programs/services and maintain infrastructure. Major projects included the ongoing construction of a new Children’s Hospital and research complex, construction at the UPMC Passavant campus, the continual enhancement of information technology infrastructure and investments in various patient care software applications.

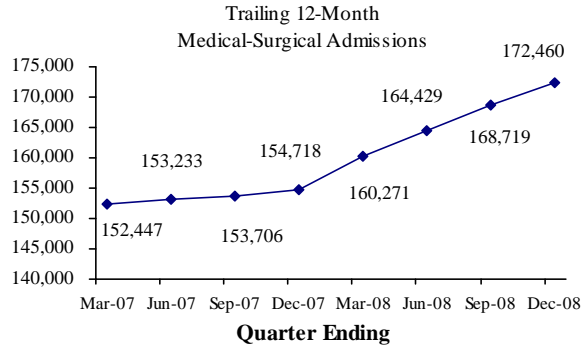
Revenue Metrics - Provider Services

(Dollars in millions)

Medical-Surgical Admissions

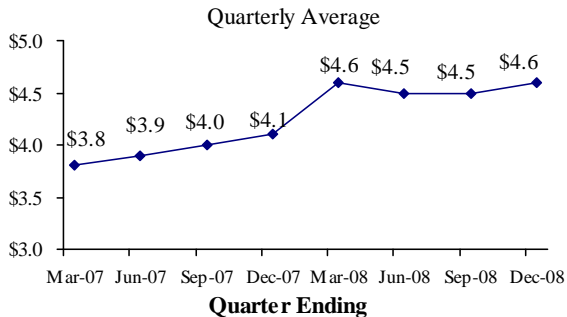
Inpatient activity at UPMC hospitals as measured by medical-surgical admissions was up 10.4% over 2007 including UPMC Mercy admissions for the period July 1, 2008 through December 31, 2008.

For the Six Months Ended December 31: (in thousands)			
	2008	Variance	2007
Academic	53.1	17.0%	45.4
Community	23.4	0.9%	23.2
Regional	8.2	1.2%	8.1
Total	84.7	10.4%	76.7



Outpatient Revenue per Workday

UPMC's outpatient activity for 2008 as measured by average revenue per workday increased by 16% from 2007. Hospital outpatient activity is measured on an equivalent work day (EWD) basis to adjust for weekend and holiday hours and includes UPMC Mercy for the period July 1, 2008 through December 31, 2008.

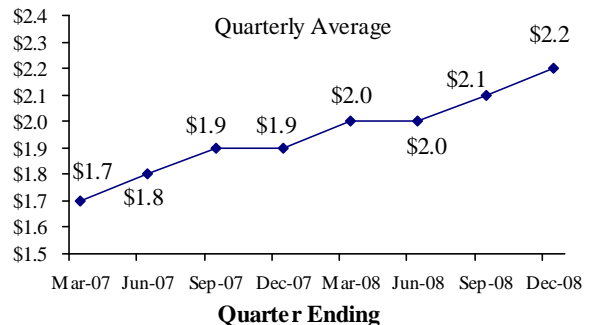


Average for the Six Months Ended December 31:			
	2008	Variance	2007
Academic	\$2.966	19%	\$2.503
Community	\$1.094	12%	\$0.981
Regional	\$0.519	9%	\$0.478
Total	\$4.579	16%	\$3.962

Physician Service Revenue per Weekday

UPMC's physician activity for the six months ended December 31, 2008 as measured by average revenue per workday increased by 14% from the prior fiscal year. Physician services activity is measured on a week day basis and includes UPMC Mercy for the period July 1, 2008 through December 31, 2008.

Average for the Six Months Ended December 31:			
	2008	Variance	2007
Anesthesiology	\$0.308	6%	\$0.291
Radiology	\$0.270	3%	\$0.261
Surgery	\$0.242	11%	\$0.218
Other	\$1.346	19%	\$1.136
Total	\$2.166	14%	\$1.906

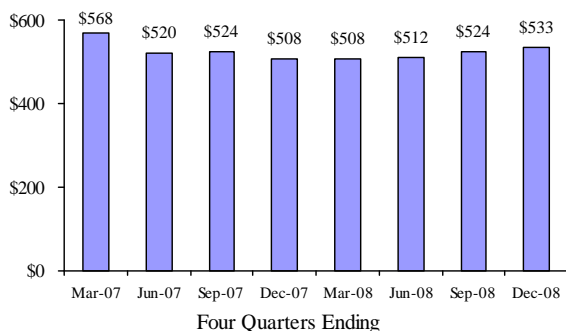


Key Financial Indicators

(Dollars in Millions)

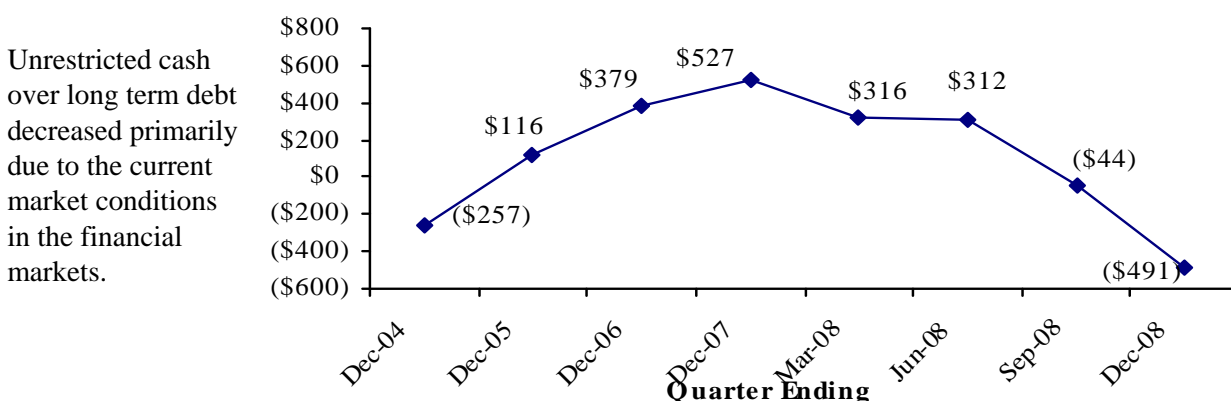
Operating Earnings Before Interest, Depreciation and Amortization

Operating EBIDA for the six month period ended December 31, 2008 increased \$20 million (7.7%) over the six month period ended December 31, 2007 and remains above half a billion dollars a year .



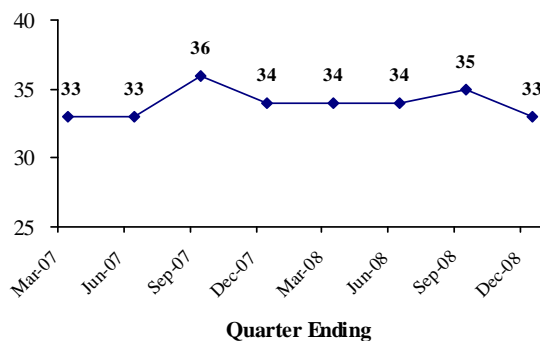
For the Six Months Ended December 31:		
	2008	2007
Operating Income	\$103	\$100
Depreciation and Amortization	<u>177</u>	<u>160</u>
Operating EBIDA	<u>\$280</u>	<u>\$260</u>

Unrestricted Cash Over (Under) Long Term Debt



Days in Accounts Receivable

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

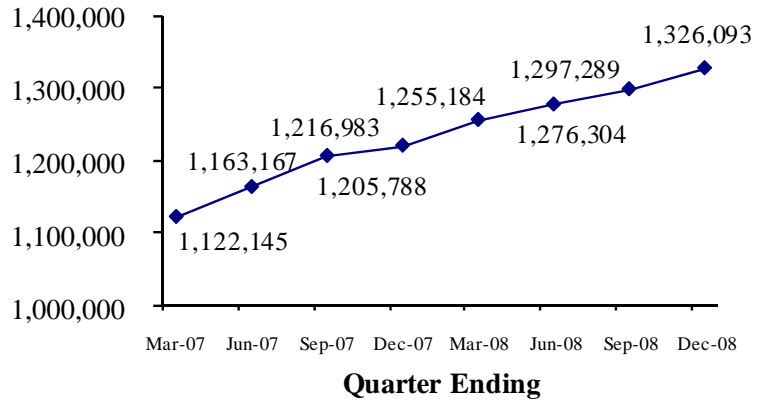


By Division as of December 31			
	2008 Balance	Days:	
		2008	2007
Provider Services	\$508	40	41
International and Commercial services	\$12	47	65
Insurance Services	\$178	22	21
All Divisions	\$698	33	34

Operating Metrics – Insurance Services

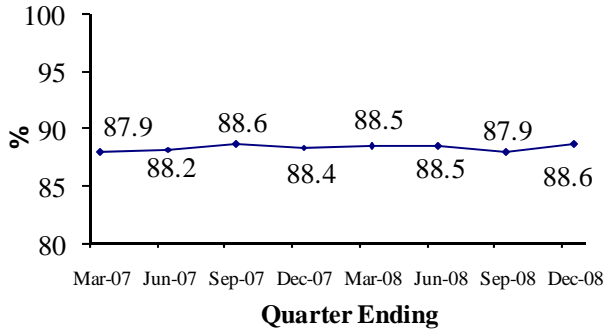
Membership

Membership in the UPMC Insurance Services Division increased to 1,326,093 as of December 31, 2008. The increase in membership since December 2007 is a result of growth in all product areas, with the most significant growth in Commercial and Medicare, approximating 19,000 and 17,000 members, respectively.



Healthcare Spending Ratio

12 Month Trailing Average

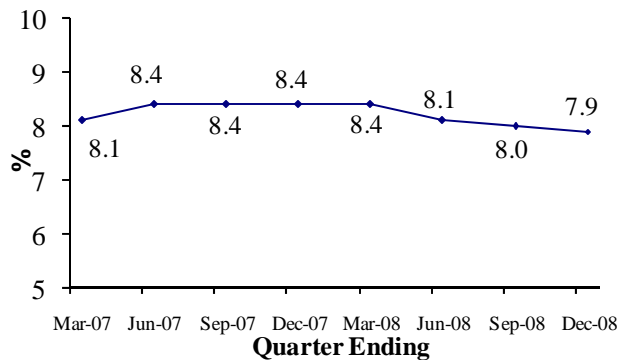


Stability in UPMC Insurance Services healthcare spending ratios reflects the impact of UPMC's integrated disease and care management services.

Administrative Expense Ratio

12 Month Trailing Average

UPMC Insurance Services maintains one of the lowest administrative expense ratios in the insurance industry.



Asset and Liability Management

During the first six months of fiscal year 2009, UPMC's investment portfolio returned (22.1%). As of December 31, 2008, UPMC employed 127 external managers, including 24 traditional investment managers, 23 hedge fund managers and 80 private equity managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of (23.7%), (0.75%) and 3.07% for the trailing one, three, and five-year periods. For the calendar year ended December 31, 2008, UPMC's portfolio returned (23.7%) versus a (37.0%) return for the Standard & Poor's 500 index. Approximately 47% of the investment portfolio consists of securities that can be liquidated within three days.

UPMC's annualized cost of capital during the period was 3.93%. 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 December 31, 2008, the interest rates on UPMC's long-term debt were approximately 60% fixed and 40% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 2.39%. The annualized interest cost for the fixed rate debt was 4.61%. As of December 31, 2008, UPMC had approximately \$168 million available on its line of credit to fund operating and capital needs.

Beginning in May 2007, UPMC has undertaken a process to standardize its bond covenants. The process consists of the replacement of notes issued under a 1995 Master Trust Indenture ("1995 MTI") with notes issued under a 2007 Master Trust Indenture ("2007 MTI"). Until all of the 1995 MTI notes have been defeased, UPMC will operate under both MTI's. As of December 31, 2008, 56.7% of UPMC's debt is secured by both MTI's.

The table below compares reported Investment Income and financing losses for the periods ending December 31, 2008 and 2007 by component.

Investment and Financing (Loss) Income by Type for the Periods Ending December 31		
	2008	2007
Realized (Losses) Gains	(\$169)	\$88
Interest, Dividends and Fees	<u>19</u>	<u>41</u>
Realized Investment (Loss) Income	(\$150)	\$129
Unrealized Losses	(550)	(80)
Impairment on Cost Based Investments	<u>(41)</u>	<u>(0)</u>
Investment (Loss) Revenue	(\$741)	\$49
Interest Expense	(44)	(46)
(Loss) on Extinguishment of Debt	<u>(1)</u>	<u>0</u>
Investment and Financing (Loss) Income	<u>(\$786)</u>	<u>\$3</u>

**Consolidating Statement of Operations for the
Six Months Ended December 31, 2008**

(DOLLARS IN MILLIONS)

	Unit			Eliminations	Consolidated
	Provider Services	International and Commercial Services	Insurance Services		
Revenues:					
Net patient service revenue	\$2,439	\$--	\$--	\$(315)	\$2,124
Insurance enrollment revenue	--	--	1,435	--	1,435
Other revenue	<u>243</u>	<u>44</u>	<u>22</u>	<u>(22)</u>	<u>287</u>
Total operating revenues	2,682	44	1,457	(337)	3,846
Expenses:					
Salaries, professional fees and benefits	1,412	30	65	(11)	1,496
Supplies, purchased services and general	945	26	1,326	(326)	1,971
Depreciation and amortization	173	1	3	--	177
Provision for bad debts	<u>100</u>	<u>0</u>	<u>(1)</u>	<u>--</u>	<u>99</u>
Total operating expenses	<u>2,630</u>	<u>57</u>	<u>1,393</u>	<u>(337)</u>	<u>3,743</u>
Operating income	<u>\$ 52</u>	<u>\$ (13)</u>	<u>\$ 64</u>	<u>\$ --</u>	<u>\$ 103</u>

Sources of Revenues

The patient service revenues of UPMC are derived from third-party payors, which reimburse or pay UPMC for the services it provides to patients covered by such payors. Third-party payors include the federal Medicare Program, the federal and state Medical Assistance Program ("Medicaid"), Highmark Blue Cross Blue Shield ("Highmark") and other third-party insurers such as health maintenance organizations and preferred provider organizations. The following table is a summary of the percentage of the subsidiary hospitals' gross patient service revenue by payor for the six months ended December 31, 2008 and 2007 and the years ended June 30, 2008 and 2007.

UPMC Payor Mix				
	Six Months Ended December 31		Twelve Months Ended June 30	
	2008	2007	2008	2007
Medicare	43%	42%	43%	42%
Medicaid	13%	12%	12%	12%
Highmark	23%	24%	24%	24%
UPMC Insurance Services	8%	8%	8%	9%
Other	<u>13%</u>	<u>14%</u>	<u>13%</u>	<u>13%</u>
	100%	100%	100%	100%

Utilization Statistics

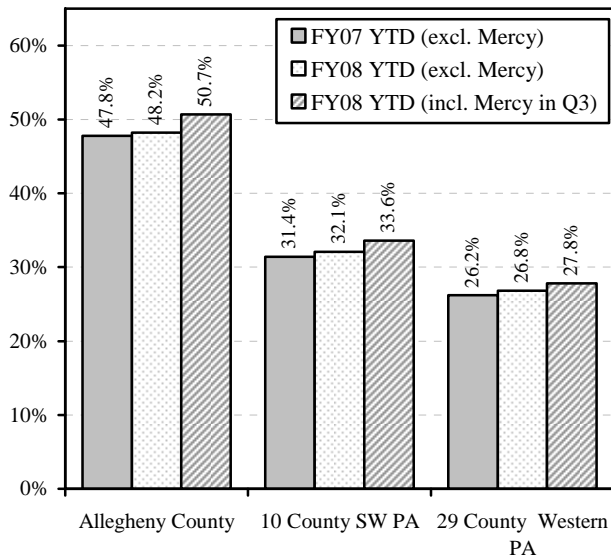
The following table presents selected consolidated statistical indicators of medical/surgical, psychiatric, sub-acute and rehabilitation patient activity for the six months ended December 31, 2008 and 2007 and for the year ended June 30, 2008 and 2007. Note that the statistics for December 31, 2008 and June 30, 2008 include UPMC Mercy beginning as of January 1, 2008.

	Six Months Ended December 31		Twelve Months Ended June 30	
	2008	2007	2008	2007
Licensed Beds	4,305	3,752	4,294	3,741
Beds in Service				
Medical-Surgical	3,194	2,841	3,204	2,816
Psychiatric	423	389	415	367
Rehabilitation	183	162	192	159
Skilled Nursing	<u>163</u>	<u>150</u>	<u>154</u>	<u>151</u>
Total Beds in Service	3,963	3,542	3,965	3,493
Patient Days				
Medical-Surgical	432,343	393,826	843,857	791,488
Psychiatric	69,177	59,416	126,564	117,136
Rehabilitation	25,017	19,944	45,420	43,092
Skilled Nursing	<u>22,311</u>	<u>21,181</u>	<u>42,984</u>	<u>42,129</u>
Total Patient Days	548,848	494,367	1,058,825	993,845
Observation Days	19,253	18,633	41,289	34,280
Average Daily Census	3,087	2,788	3,003	2,817
Admissions				
Medical-Surgical	84,686	76,655	164,429	153,233
Psychiatric	4,922	4,872	10,360	9,856
Rehabilitation	2,095	1,739	3,934	3,608
Skilled Nursing	<u>1,911</u>	<u>1,766</u>	<u>3,555</u>	<u>3,456</u>
Total Admissions	93,614	85,032	182,278	170,153
Overall Occupancy	78%	79%	76%	81%
Average Length of Stay (Admissions Calculation)				
Medical/Surgical	5.1	5.1	5.1	5.2
Psychiatric	14.1	12.2	12.2	11.9
Rehabilitation	11.9	11.5	11.5	11.9
Skilled Nursing	11.7	12.0	12.1	12.2
Overall Average Length of Stay	5.9	5.8	5.8	5.8
Emergency Room Visits	237,032	215,196	457,047	420,833
Transplants (Pittsburgh)				
Liver	62	105	170	219
Kidney	92	85	180	244
All Other	<u>193</u>	<u>172</u>	<u>343</u>	<u>370</u>
Total	347	362	693	833
Transplants (IsMeTT)				
Liver	34	47	87	87
Other	<u>25</u>	<u>28</u>	<u>49</u>	<u>47</u>
Total	59	75	136	134

Market Share

The following chart shows UPMC's estimated inpatient medical/surgical market share in its service areas for the first three quarters of fiscal years 2007 and 2008 (July 1 through March 31). For fiscal year 2008, estimated market share is displayed both including and excluding discharges for UPMC Mercy, which integrated into UPMC on January 1, 2008. The corresponding table shows the number of discharges from all hospitals for the same time periods. This is the most recent market share data currently available.

UPMC Market Share



All Medical-Surgical Discharges Within the Service Areas for Fiscal Years-to-Date 2007 and 2008 (July through March)		
	FYTD 2007	FYTD 2008
Allegheny County	129,551	129,620
Southwestern Pennsylvania (10-County Region)	276,195	274,496
Western Pennsylvania (29-County Region)	408,092	406,006

Counties included in Service Areas		
<u>Southwestern Pennsylvania</u> (10-County Region)	<u>Additional Counties included in Western Pennsylvania</u> (29-County Region)	
Allegheny	Bedford	Blair
Armstrong	Cambria	Cameron
Beaver	Centre	Clarion
Butler	Clearfield	Crawford
Fayette	Elk	Erie
Greene	Forest	Huntingdon
Indiana	Jefferson	McKean
Lawrence	Mercer	Potter
Washington	Somerset	Venango
Westmoreland	Warren	

DEBT COVENANT CALCULATIONS

(Dollars in Thousands)

Debt Service Coverage Ratios		Twelve Months Ended December 31, 2008
Net Income		\$(783,181)
Less:		
Revenues Available for Debt Service from Properties Financed with Non-recourse Indebtedness		(6,404)
Unrealized (Gains)/Losses from Period ⁽¹⁾		707,763
Depreciation and Amortization ⁽¹⁾		347,015
Loss on Defeasance of Debt ⁽¹⁾		7,375
Asset Impairment		46,801
Interest Expense		<u>84,543</u>
Revenues Available for Debt Service		<u>\$403,912</u>
Maximum Annual Debt Service - MTI		\$215,939
Debt Service Coverage Ratio – MTI		1.87X
Debt Service Requirements		\$160,141
Debt Service Coverage Ratio		2.52X
Maximum Annual Debt Service – All Debt		\$243,434
Debt Service Coverage Ratio – All Debt		1.66X

Liquidity Ratios As of December 31, 2008			
Unrestricted Cash & Investments	\$2,228,642	Master Trust Indenture Debt	\$2,463,184
Total Operating Expenses	3,790,422	Unrestricted Cash to Debt	.90
Less: Depreciation and Amortization	(176,952)		
Provision for Bad Debts	<u>(99,359)</u>	Parent Unrestricted Cash	\$1,555,802
Cash Operating Expenses	<u>\$3,514,111</u>	Maximum Annual Debt Service	198,971
Daily Cash Expenses (Cash Operating Expenses / 184)	19,098	Parent Cushion Ratio	7.82X
Days' Cash on Hand	116.7	Debt to Capitalization	54.7%

(1) Non-Cash.

I hereby certify to the best of my knowledge that, as of December 31, 2008, UPMC is in compliance with the applicable covenants contained in the financing documents for the bonds listed on the cover hereof.

UPMC

C. Talbot Heppenstall, Jr.
Treasurer

APPENDIX A

**Unaudited Interim Consolidated Financial Statements of UPMC
for the Six-Month Periods Ended December 31, 2008 and 2007**

Consolidated Balance Sheets
(Unaudited)
(IN MILLIONS)

	As of December 31 2008	As of June 30, 2008
Current assets		
Cash and cash equivalents	\$138	\$77
Patient accounts receivable, net of allowance for uncollectible accounts of \$76 at December 31, 2008 and \$78 at June 30, 2008	422	435
Other receivables	276	270
Securities lending receivable	29	230
Other current assets	<u>102</u>	<u>86</u>
Total current assets	967	1,098
Board-designated, restricted, trusted, and other investments, including securities pledged to creditors of \$29 as of December 31, 2008 and \$224 as of June 30, 2008	2,494	3,163
Beneficial interests in foundations	306	381
Net property, buildings and equipment	2,954	2,824
Other assets	<u>322</u>	<u>303</u>
Total assets	<u>\$7,043</u>	<u>\$7,769</u>
Current liabilities		
Accounts payable and accrued expenses	\$333	\$368
Accrued salaries and related benefits	280	278
Current portion of insurance reserves	237	241
Current portion of long-term obligations	105	105
Securities lending collateral payable	30	230
Other current liabilities	<u>247</u>	<u>162</u>
Total current liabilities	1,232	1,384
Long-term obligations	2,709	2,506
Pension liability	49	36
Long-term insurance reserves	145	142
Other long-term liabilities	<u>116</u>	<u>115</u>
Total liabilities	4,251	4,183
Unrestricted net assets	2,327	3,020
Restricted net assets	<u>465</u>	<u>566</u>
Total net assets	<u>2,792</u>	<u>3,586</u>
Total liabilities and net assets	<u>\$7,043</u>	<u>\$7,769</u>
<i>See accompanying notes.</i>		

**Consolidated Statements of Operations and Changes in Net Assets
(Unaudited)**

(IN MILLIONS)

	Six Months Ended December 31		Three Months Ended December 31	
	2008	2007	2008	2007
Unrestricted net assets				
Revenues:				
Net patient service revenue	\$2,124	\$1,909	\$1,044	\$953
Insurance enrollment revenue	1,435	1,198	718	605
Other revenue	<u>287</u>	<u>267</u>	<u>150</u>	<u>141</u>
Total operating revenues	3,846	3,374	1,912	1,699
Expenses:				
Salaries, professional fees and employee benefits	1,496	1,279	753	648
Supplies, purchased services and general	1,971	1,735	994	890
Depreciation and amortization	177	160	91	82
Provision for bad debts	<u>99</u>	<u>100</u>	<u>34</u>	<u>41</u>
Total operating expenses	3,743	3,274	1,872	1,661
Operating income	103	100	40	38
Income tax expense	<u>(6)</u>	<u>(2)</u>	<u>(4)</u>	<u>(1)</u>
After-tax operating income (carried forward)	\$97	\$98	\$36	\$37

Consolidated Statements of Operations and Changes in Net Assets (continued)
(Unaudited)

(IN MILLIONS)

	Six Months Ended December 31		Three Months Ended December 31	
	2008	2007	2008	2007
After-tax operating income (brought forward)	\$97	\$98	\$36	\$37
Investing and financing activity:				
Investment (loss) revenue	(741)	49	(416)	(5)
Interest expense	(44)	(46)	(22)	(24)
(Loss) on extinguishment of debt	<u>(1)</u>	<u>0</u>	<u>0</u>	<u>0</u>
(Loss) income from investing and financing activities	(786)	3	(438)	(29)
Excess of (expenses over revenues) revenues over expenses	(689)	101	(402)	8
Other changes in unrestricted net assets	<u>(4)</u>	<u>7</u>	<u>(3)</u>	<u>7</u>
(Decrease) increase in unrestricted net assets	(693)	108	(405)	15
Restricted net assets				
Contributions	3	11	1	9
Net realized gains and change in unrealized investment depreciation	(9)	4	(7)	4
Assets released from restriction for operations and capital purchases	(20)	(8)	(16)	(8)
Net decrease in beneficial interests in foundations	<u>(75)</u>	<u>(0)</u>	<u>(71)</u>	<u>15</u>
(Decrease) increase in restricted net assets	<u>(101)</u>	<u>7</u>	<u>(93)</u>	<u>20</u>
(Decrease) increase in net assets	(794)	115	(498)	35
Net assets, beginning of period	<u>3,586</u>	<u>3,623</u>	<u>3,294</u>	<u>3,703</u>
Net assets, end of period	<u>\$2,792</u>	<u>\$3,738</u>	<u>\$2,796</u>	<u>\$3,738</u>
<i>See accompanying notes.</i>				

Consolidated Statements of Cash Flow (Unaudited)

(IN MILLIONS)

	Six Months Ended December 31		Three Months Ended December 31	
	2008	2007	2008	2007
Operating activities:				
(Decrease) increase in net assets	(\$794)	\$115	(\$498)	\$35
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities				
Depreciation and amortization	177	160	91	82
Beneficial interest in foundations	75	0	71	(15)
Restricted contributions and investment income	6	(15)	6	(13)
Changes in operating assets and liabilities	<u>170</u>	<u>(137)</u>	<u>156</u>	<u>(71)</u>
Net cash (used in) provided by operating activities	(366)	123	(174)	18
Investing activities:				
Purchase of property, and equipment (net of disposals)	(285)	(243)	(160)	(137)
Investments in joint ventures	(9)	0	(3)	0
Net increase in investments designated as nontrading	669	(138)	321	(92)
Net increase in other assets	<u>(37)</u>	<u>(40)</u>	<u>(49)</u>	<u>(8)</u>
Net cash provided by investing activities	338	(421)	109	(237)
Financing activities:				
Repayments of long-term obligations	(80)	(217)	(43)	(44)
Borrowings of long-term obligations	105	389	101	221
Line of credit borrowings	70	22	59	(33)
Restricted contributions and investment income	<u>(6)</u>	<u>15</u>	<u>(6)</u>	<u>13</u>
Net cash provided by financing activities	89	209	111	157
Increase (decrease) in cash and cash equivalents	61	(89)	46	(62)
Cash and cash equivalents, beginning of period	<u>77</u>	<u>155</u>	<u>92</u>	<u>128</u>
Cash and cash equivalents, end of period	<u>\$ 138</u>	<u>\$ 66</u>	<u>\$138</u>	<u>66</u>
<i>See accompanying notes.</i>				

Notes to Consolidated Financial Statements (Unaudited)

(In Millions)

1. Basis of Presentation

UPMC, doing business as the University of Pittsburgh Medical Center (UPMC), is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pennsylvania, UPMC is one of the leading academic medical centers in the United States. UPMC is an integrated global health enterprise that has the medical expertise, geographic reach, and financial stability to develop models of excellence that are transforming health care nationally and internationally.

The accompanying unaudited 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.

For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2008.

The accompanying consolidated financial statements include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

2. Fair Value Measurements

Effective July 1, 2008, UPMC adopted FASB Statement No. 157, *Fair Value Measurements* (Statement 157) for all financial instruments accounted for at fair value on a recurring basis. Statement 157 establishes a new framework for measuring fair value and expands related disclosures. Statement 157 requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants.

The valuation techniques used to measure fair value under Statement 157 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. Statement 157 established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- 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.

As of December 31, 2008, 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.

In accordance with Statement 157, the following table represents UPMC's fair value hierarchy for its financial assets and liabilities (cash and investments) measured at fair value on a recurring basis of as December 31, 2008. 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, mortgage and asset-backed securities. Public real estate that has a limited liability company structure is classified as Level 2. The net asset value has been derived using quoted market prices for the underlying securities.

	Fair Value Measurements at December 31, 2008			
	Level 1	Level 2	Level 3	Total Carrying Amount
Cash and cash equivalents	\$138	\$ --	\$ --	\$138
Fixed income	248	341	--	589
Domestic equity	148	--	--	148
International equity	264	49	--	313
Public real estate	20	16	--	36
Commodities	23	--	--	23
Derivative instruments (interest rate swaps)	--	(167)	--	(167)
Total	<u>\$841</u>	<u>\$239</u>	<u>\$--</u>	<u>\$1,080</u>

Pursuant to master netting arrangements, UPMC offsets the fair value of amounts recognized for derivative instruments, including the right to reclaim or obligation to return cash collateral from/to counterparties. As of December 31, 2008, UPMC had the right to reclaim collateral of \$85 from one of its counterparties.

3. Pension Plans

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

The components of net periodic benefit cost for defined benefit pension plans were as follows:

	Six Months Ended December 31		Three Months Ended December 31	
	2008	2007	2008	2007
Service cost	\$ 25	\$ 23	\$ 12	\$ 12
Interest cost	25	22	13	11
Expected return on plan assets	(28)	(29)	(14)	(14)
Recognized net actuarial loss	2	1	1	--
Amortization of prior service credit	(3)	(3)	(1)	(2)
Net periodic benefit cost	<u>\$ 21</u>	<u>\$ 14</u>	<u>\$ 11</u>	<u>\$ 7</u>

The actuarial assumptions used to determine net periodic pension cost for the six-months ended December 31 for the defined benefit pension plans are as follows:

	Six Months Ended December 31		Three Months Ended December 31	
	2008	2007	2008	2007
Discount rate	6.95%	6.25%	6.95%	6.25%
Expected rate of compensation increase	3.75%	3.75%	3.75%	3.75%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%	8.00%

4. Contingencies

UPMC is involved in litigation and responding to requests for information from governmental agencies occurring in the normal course of business. Certain of these matters are in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon operations or financial condition of UPMC. Management believes that these matters will be resolved without material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In August 2007, UPMC received a request for information from the Civil Division of the Department of Justice relating to an investigation into the health insurance and hospital services market in and around Pittsburgh, including any potentially anticompetitive agreements. This request covers several prior years. At this time, no specific violations, claims or assessments have been made. Management is cooperating with the information requests and believes that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome of this investigation, including the impact on UPMC, cannot be determined at this time.