



# UPMC Unaudited Quarterly Disclosure

FOR THE PERIOD ENDED JUNE 30, 2020

**UPMC**  
LIFE CHANGING MEDICINE

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The following financial data as of June 30, 2020 and for the three and six month periods ended June 30, 2020 and 2019 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, 2019 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 Quarterly Disclosure, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.



# INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2020

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. We also draw patients for highly specialized services from across the nation and around the world. UPMC's more than 40 hospitals and more than 700 clinical locations comprise one of the largest nonprofit health systems in the United States. UPMC has three major divisions: Health Services, Insurance Services, and UPMC Enterprises.

We are committed to providing the communities that our hospitals, outpatient centers and other health care facilities serve, as well as our insurance members, with high quality, cost-effective health care while continuing to grow our business and execute on our mission to provide Life Changing Medicine. 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.

UPMC continues to make significant investments in equipment, technology, education and operational strategies designed to improve clinical quality at our hospitals and outpatient centers. As a result of our efforts, *U.S. News & World Report* consistently ranks UPMC Presbyterian Shadyside among the nation's best hospitals in many specialties and ranks UPMC Children's Hospital of Pittsburgh on its Honor Roll of America's Best Children's Hospitals. Investments in our operations and continued capital improvements are expected to become increasingly important as the competitive environment of the market and changes to health care continue to progress and change the landscape of patient care and reimbursement. We build new facilities, make strategic acquisitions, and enter into joint venture arrangements or affiliations with health care businesses — in each case in communities where we believe our mission can be effectively utilized to improve the overall health of those communities.

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 and statistical information included herein relates to our continuing operations, with dollar amounts expressed in thousands (except for statistical information). This MD&A should be read in conjunction with the accompanying unaudited condensed consolidated financial statements.

# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## COVID-19

Coronavirus disease 19 ("COVID-19") is a respiratory disease caused by the new coronavirus (SARS-CoV-2) not previously seen in humans. An outbreak of COVID-19 began in late 2019 in Wuhan, a city in China's Hubei province. To date, cases of COVID-19 have spread around the world. In February 2020, the United States Centers for Disease Control and Prevention confirmed the spread of the disease to the United States, and in March 2020, the World Health Organization declared the outbreak a pandemic and the Trump Administration declared it a national emergency in the United States. Now considered one of the most rapidly emerging infectious diseases worldwide, this virus is spread through human contact, much like the cold or flu, and can cause fever, cough and shortness of breath that are mild in some individuals and life-threatening or fatal in others.

UPMC and its subsidiaries have and expect to continue to experience some disruption to operations as a result of the COVID-19 pandemic. Primarily in response to directives from various elected officials to attempt to quell the spread of the disease, UPMC Health Services division experienced reductions in volumes during the second quarter before volumes began returning to near pre-COVID-19 levels towards the end of June.

On March 27, 2020, the federal government enacted the CARES Act that provides, among other funding sources, \$100 billion in relief funds to hospitals and other healthcare providers on the front lines of the COVID-19 response. This funding is to be used to support healthcare related expenses or lost revenue attributable to COVID-19. From April through June 2020, over 90 individual UPMC facilities received an aggregate of approximately \$340 million of CARES Act funding, of which approximately \$257 million was recognized as operating revenue in the second quarter. Since June 30, UPMC entities have received additional funding of approximately \$60 million. The remaining government payments received will be recognized in operations as other operating revenue during the remainder of 2020, subject to complying with certain terms and conditions and on-going regulatory clarifications.

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") has expanded the current Accelerated and Advance Payment Program. Beginning in April 2020, through the date of issuance of this report, 185 individual national provider identifier entities of UPMC, an identifier used by CMS for provider facilities, received advance funding that aggregated to a total of approximately \$800 million. Continued claims submissions and reimbursements will occur after the issuance of the accelerated/advanced payment for 120 days, at which time a recoupment process will begin and every new claim submitted to CMS will be offset to repay the accelerated/advanced payment.

Due to the uncertainty surrounding the governmental reaction to the COVID-19 outbreak, UPMC adopted an interim 2020 financing plan to increase working capital by temporarily issuing \$2.17 billion of debt (the "Interim Financings"). The Interim Financings consisted of a \$500 million draw from UPMC's existing revolving credit facility and taxable financings from five banks (Royal Bank of Canada, Barclays, Wells Fargo, Key Bank and an affiliate of J.P. Morgan). The proceeds from the Interim Financings were intended to meet potential working capital needs. UPMC anticipated that, once those potential working capital needs passed, approximately \$1.2 billion of the proceeds from the Interim Financings would be used for certain of the purposes in the Original 2020 Financing Plan (refer to Asset and Liability Management section of MD&A).

During the second quarter UPMC also issued tax exempt Series 2020 A & B Bonds to fund a portion of the capital project purposes of the Original 2020 Financing Plan and refund certain outstanding debt incurred in connection with UPMC's acquisition of UPMC Western Maryland, also as contemplated in the Original Financing Plan. Following the issuance of the 2020 A & B Bonds, the Corporation had outstanding nearly \$7 billion of debt outstanding.

# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Six Months Ended June 30	2020	2019*
Operating revenues	\$ 11,122	\$ 10,190
Operating income	\$ 59	\$ 79
Operating margin %	0.5%	0.8%
Operating margin (including income tax and interest expense)	(0.3)%	0.0%
(Loss) gain from investing and financing activities	\$ (423)	\$ 279
Excess of (expenses over revenues) revenues over expenses	\$ (165)	\$ 372
Operating EBIDA	\$ 402	\$ 393
Capital expenditures	\$ 420	\$ 496
Reinvestment ratio	1.22	1.58

Selected Other Information as of	June 30, 2020	December 31, 2019
Total cash and investments	\$ 9,071	\$ 6,600
Unrestricted cash and investments	\$ 7,775	\$ 5,057
Unrestricted cash and investments over long-term debt	\$ 1,272	\$ 912
Days of cash on hand	131	92
Days in net accounts receivable	48	44
Average age of plant	9.1	9.0

\*Prior year results have been adjusted to reflect the retrospective adoption of ASU 2017-07, *Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans*

Operating revenues for the six months ended June 30, 2020 increased \$932 million, or 9%, as compared to the six months ended June 30, 2019. Operating income for the six months ended June 30, 2020 decreased \$20 million over the same period in the prior year. Excess of expenses over revenues was \$165 million and operating earnings before interest, depreciation and amortization totaled \$402 million for the six months ended June 30, 2020. As of June 30, 2020, UPMC had approximately \$9.1 billion of cash and investments.

For the six months ended June 30, 2020:

- Hospital medical-surgical admissions and observation cases decreased 13% compared to the prior year.
- Hospital outpatient revenue per workday decreased 4% compared to the prior year.
- Physician service revenue per weekday decreased 14% from the comparable period in the prior year, and
- Enrollment in UPMC's Insurance Services grew to nearly 3.9 million members as of June 30, 2020.

UPMC's loss from investing and financing activities for the six months ended June 30, 2020 was (\$423) million primarily as a result of adverse market conditions related to the COVID-19 pandemic. UPMC continues to have a long-term perspective with regard to its investment activities

# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## BUSINESS HIGHLIGHTS

In July 2020, UPMC released its 2019-20 Community Benefits Report, detailing how UPMC provided \$1.4 billion in IRS-defined community benefits during Fiscal Year 2019, up by \$175 million from last year. UPMC's total economic impact of \$42 billion nearly doubled in the last five years. As the Commonwealth's largest non-governmental employer, UPMC supports more than one in four hospital jobs in Pennsylvania. UPMC's \$1.4 billion in community-focused programs last year equals nearly \$4 million per day or more than 15% of net patient revenue. According to the most recent publicly available data, UPMC contributes more than what any other health system in Pennsylvania contributes. The \$1.4 billion total includes: \$479 million to make care more accessible for the most vulnerable residents in our communities, including \$102 million in free or discounted care to more than 20,000 patients and \$377 million in unreimbursed Medical Assistance costs and other subsidized care; \$376 million for community health and wellness programs and charitable contributions, including more than 3,000 free and subsidized programs; and \$548 million for medical research and education, advancing breakthrough treatments and cures while training the next generation of clinicians. Over the past five years, UPMC's community benefits have totaled \$5.4 billion.

In May 2020, UPMC and Merck announced that Infectious Disease Connect Inc., a UPMC-backed company offering telemedicine-enabled solutions to hospitals for treatment of infectious diseases, has combined with Merck's ILUM Health Solutions, a provider of technology and services to support infectious disease management, clinical decision-support and precision antibiotic therapy. As part of this agreement, UPMC Enterprises, the innovation and commercialization arm of UPMC, and Merck Global Health Innovation Fund each are investing \$5 million to support development of customer offerings and business growth for the newly combined entity. UPMC will retain a majority stake in the combined company. Infectious Disease Connect has established a telemedicine solution for infectious disease care enabling doctors to access the expertise of an infectious disease specialist to facilitate timely diagnosis and treatment of patients under their care. With its expanded capabilities and efficiencies, the new Infectious Disease Connect aims to address the nationwide shortage of infectious disease physicians, the rapidly rising risk of hospital-acquired infections and inappropriate antimicrobial usage, which are estimated to cost hospitals more than \$40 billion annually. The company can provide hospitals with infectious disease expertise and tools to help meet new federal regulations requiring evidence-based antimicrobial stewardship programs that produce measurable results. Infectious Disease Connect, headquartered in Pittsburgh, continues to serve ILUM's hospital customers and integrate most of its employees. The expanded company now serves hospitals in nine states.

In June 2020, UPMC announced its establishment of the UPMC Global Technology Operations Center in Kilkenny, Ireland to support the health system's continuing international expansion. The new center is expected to employ more than 60 skilled technology workers and other support staff over the next three years, adding to the more than 475 UPMC staff already in Ireland. The project is supported by the Irish government through IDA Ireland. With multiple hospitals, cancer centers and other health care facilities in Italy and Ireland, an advisory agreement to support an academic medical center in Kazakhstan and a planned partnership to manage a network of new hospitals in China, UPMC has one of the largest and most experienced international divisions of any U.S. academic medical center.

In June 2020, UPMC Children's Hospital of Pittsburgh was recognized again as one of the top pediatric hospitals in the country, earning the ninth position on the 2020-21 U.S. News & World Report Honor Roll of America's Best Children's Hospitals. UPMC Children's is ranked for excellence in all specialty areas and is among the top ten in four specialties: cardiology and heart surgery (No. 2); diabetes and endocrinology (No. 7); gastroenterology and gastroenterology surgery (No. 9); and pulmonology (No. 10).

# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Six Months Ended June 30, 2020

(in millions)

	Health Services	Insurance Services	Eliminations	Consolidated
<b>Revenues:</b>				
Net patient service revenue	\$ 5,397	\$ -	\$ (1,072)	\$ 4,325
Insurance enrollment revenue	-	5,645	-	5,645
Other revenue	852	398	(98)	1,152
<b>Total operating revenues</b>	<b>\$ 6,249</b>	<b>\$ 6,043</b>	<b>\$ (1,170)</b>	<b>\$ 11,122</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 3,551	\$ 303	\$ (14)	\$ 3,840
Insurance claims expense	-	4,972	(1,072)	3,900
Supplies, purchased services and general	2,578	486	(84)	2,980
Depreciation and amortization	336	7	-	343
<b>Total operating expenses</b>	<b>6,465</b>	<b>5,768</b>	<b>(1,170)</b>	<b>11,063</b>
<b>Operating income</b>	<b>\$ (216)</b>	<b>\$ 275</b>	<b>\$ -</b>	<b>\$ 59</b>
<b>Operating margin %</b>	<b>(3.5)%</b>	<b>4.6%</b>	<b>-</b>	<b>0.5%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>(4.6)%</b>	<b>4.3%</b>	<b>-</b>	<b>(0.3)%</b>
<b>Operating EBIDA</b>	<b>\$ 120</b>	<b>\$ 282</b>	<b>\$ -</b>	<b>\$ 402</b>
<b>Operating EBIDA %</b>	<b>1.9%</b>	<b>4.7%</b>	<b>-</b>	<b>3.6%</b>

Six Months Ended June 30, 2019\*

(in millions)

	Health Services	Insurance Services	Eliminations	Consolidated
<b>Revenues:</b>				
Net patient service revenue	\$ 5,541	\$ -	\$ (1,126)	\$ 4,415
Insurance enrollment revenue	-	4,957	-	4,957
Other revenue	556	341	(79)	818
<b>Total operating revenues</b>	<b>\$ 6,097</b>	<b>\$ 5,298</b>	<b>\$ (1,205)</b>	<b>\$ 10,190</b>
<b>Expenses:</b>				
Salaries, professional fees and benefits	\$ 3,395	\$ 219	\$ (14)	\$ 3,600
Insurance claims expense	-	4,559	(1,126)	3,433
Supplies, purchased services and general	2,405	424	(65)	2,764
Depreciation and amortization	299	15	-	314
<b>Total operating expenses</b>	<b>6,099</b>	<b>5,217</b>	<b>(1,205)</b>	<b>10,111</b>
<b>Operating income</b>	<b>\$ (2)</b>	<b>\$ 81</b>	<b>\$ -</b>	<b>\$ 79</b>
<b>Operating margin %</b>	<b>- %</b>	<b>1.5%</b>	<b>-</b>	<b>0.8%</b>
<b>Operating margin % (including income tax and interest expense)</b>	<b>(1.1)%</b>	<b>1.3%</b>	<b>-</b>	<b>- %</b>
<b>Operating EBIDA</b>	<b>\$ 297</b>	<b>\$ 96</b>	<b>\$ -</b>	<b>\$ 393</b>
<b>Operating EBIDA %</b>	<b>4.9%</b>	<b>1.8%</b>	<b>-</b>	<b>3.9%</b>

\*Prior year results have been adjusted to reflect the retrospective adoption of ASU 2017-07, *Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans*

# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## 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 4,900 employed physicians with associated practices. Also included within Health Services are supporting foundations and UPMC’s captive insurance programs. Hospital activity is monitored in four distinct groups: (i) academic hospitals that provide a comprehensive array of clinical services that include the specialty service lines listed above and serve as the primary academic and teaching centers for UPMC and are located in Pittsburgh; (ii) community hospitals that provide core clinical services mainly to the suburban Pittsburgh market place; (iii) regional hospitals that provide core clinical services to certain other areas of western (including Erie) and central (including Williamsport and Harrisburg) Pennsylvania; 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 surrounding counties. Health Services also includes international ventures which aim to bring new revenue streams into UPMC’s domestic operations. International ventures currently include ISMETT, a transplant and specialty surgery hospital in Palermo, Italy, that has performed more than 2,200 transplants since its founding in 1999, a hospital system located in Ireland, a contract to provide management services for five world-class hospitals in partnership with Wanda Group in China, remote second-opinion pathology consultations for patients in China and Singapore, a national oncology treatment and research center in Kazakhstan, as well as the Advanced Radiosurgery Center of Excellence at San Pietro FBF Hospital in Rome.

Health Services operating income for the six months ended June 30, 2020 decreased \$214 million versus the same period in the prior year primarily due to lower volumes as a result of the COVID-19 pandemic.

## Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have nearly 3.9 million members as of June 30, 2020. 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 in providing coverage to Medical Assistance & Medicare Special Needs Plan beneficiaries. UPMC Health Network offers preferred provider organization (“PPO”) plan designs to serve Medicare beneficiaries. UPMC Health Options offers PPO plan designs to serve commercial beneficiaries. UPMC for Life is a Medicare product line offered by various companies within the Insurance Services division. UPMC Work Partners provides fully insured workers’ compensation, and integrated workers’ compensation and disability services to employers. Community Care Behavioral Health Organization (“Community Care”) is a state-licensed HMO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in Pennsylvania. Community HealthChoices (“CHC”) is Pennsylvania’s managed care program for individuals who are dual eligible for Medicaid and Medicare or qualify for Medicaid LTSS and is designed to increase opportunities for older Pennsylvanians and individuals with physical disabilities to remain in their homes and communities rather than in facilities.

Insurance Services operating income for the six months ended June 30, 2020 increased by \$194 million versus the same period in the prior year due to increased enrollment and decreased expenses related to volume declines within the Insurance Services division’s healthcare provider network related to the COVID-19 pandemic.



# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## UPMC Enterprises

UPMC Enterprises leverages UPMC's integrated delivery and financing system capabilities to generate new revenue streams. This is accomplished by fostering new ideas for improvement in the delivery of health care, pursuing commercialization opportunities of digital solutions and developing strategic partnerships with industry leaders. Leveraging UPMC's long-standing reputation for academic and research excellence, UPMC Enterprises also sponsors the translation of basic science conducted in a research setting to its commercial use in bedside clinical practice, application in medical laboratories, or use across emerging venues where medicine is delivered. These ventures both support UPMC's core mission and help to stimulate the economy of western Pennsylvania.

UPMC Enterprises manages a portfolio that includes various product development initiatives and numerous operating companies with commercially-available products and services directed toward the improvement of the delivery of health care. Unlike the Health Services and Insurance Services divisions, UPMC Enterprises' results are classified as investing and financing activity in the condensed consolidated statements of operations and changes in net assets, consistent with the long-term nature of developing and commercializing technology-enabled initiatives.

# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## REVENUE METRICS – HEALTH SERVICES

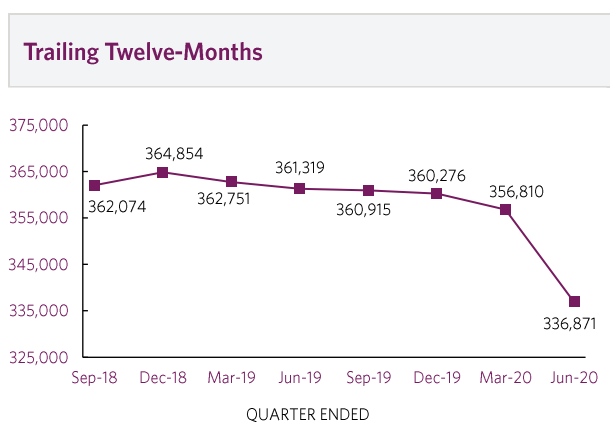
### Medical-Surgical Admissions and Observation Visits

Inpatient activity as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the six months ended June 30, 2020 decreased 13% compared to the same period in 2019 driven by volume decreases as a result of the COVID-19 pandemic.

For the Six Months Ended June 30			
(in thousands)	2020*	2019**	Change
<b>Academic</b>	<b>53.6</b>	62.7	(15)%
<b>Community</b>	<b>24.5</b>	29.0	(16)%
<b>Regional</b>	<b>79.1</b>	89.0	(11)%
<b>Total</b>	<b>157.2</b>	180.7	(13)%

\*Excludes UPMC Western Maryland

\*\*Reclassifications to prior year to conform to current year presentation



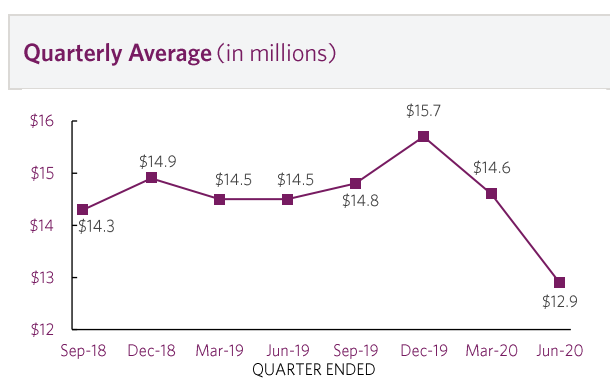
### Outpatient Revenue per Workday

UPMC's outpatient activity for the six months ended June 30, 2020 as measured by average revenue per workday decreased 4% compared to the same period in 2019. Decreases since December are driven by volume declines related to the COVID-19 pandemic. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Six Months Ended June 30			
(in thousands)	2020*	2019**	Change
<b>Academic</b>	\$ 5,426	\$ 5,760	(6)%
<b>Community</b>	1,448	1,523	(5)%
<b>Regional</b>	6,975	7,195	(3)%
<b>Total</b>	\$ 13,849	\$ 14,478	(4)%

\*Excludes UPMC Western Maryland

\*\*Reclassifications to prior year to conform to current year presentation



# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## REVENUE METRICS – HEALTH SERVICES (CONTINUED)

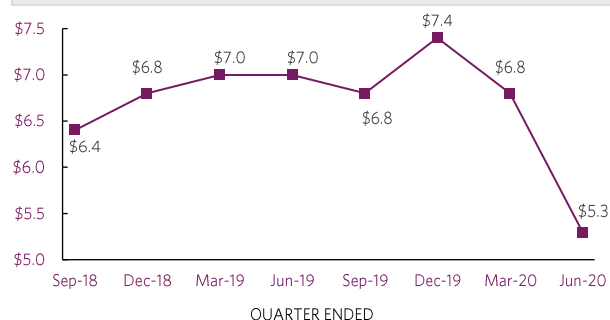
### Physician Service Revenue per Weekday

UPMC's physician activity for the six months ended June 30, 2020 as measured by average revenue per weekday decreased 14% from the comparable period in 2019 driven by volume declines as a result of the COVID-19 pandemic. Physician services activity is measured on a weekday basis.

For the Six Months Ended June 30			
(in thousands)	2020*	2019	Change
<b>Academic</b>	\$ 3,013	\$ 3,617	(17)%
<b>Community</b>	1,437	1,681	(15)%
<b>Regional</b>	1,581	1,706	(7)%
<b>Total</b>	\$ 6,031	\$ 7,004	(14)%

\*Excludes UPMC Western Maryland

Quarterly Average (in millions)



### Sources of Patient Service Revenue

The gross patient service revenues, before explicit and implicit price concessions, of UPMC are derived from payers which reimburse or pay UPMC for the services it provides to patients covered by such payers. The following table is a summary of the percentage of the subsidiary hospitals' gross patient service revenue by payer.

	Six Months Ended June 30	
	2020	2019
<b>Medicare</b>	<b>47%</b>	47%
<b>Medicaid</b>	<b>17%</b>	17%
<b>UPMC Insurance Services Commercial</b>	<b>13%</b>	15%
<b>Highmark Commercial</b>	<b>9%</b>	6%
<b>National Insurers Commercial</b>	<b>6%</b>	7%
<b>Self-pay/Other</b>	<b>8%</b>	8%
<b>Total</b>	<b>100%</b>	100%

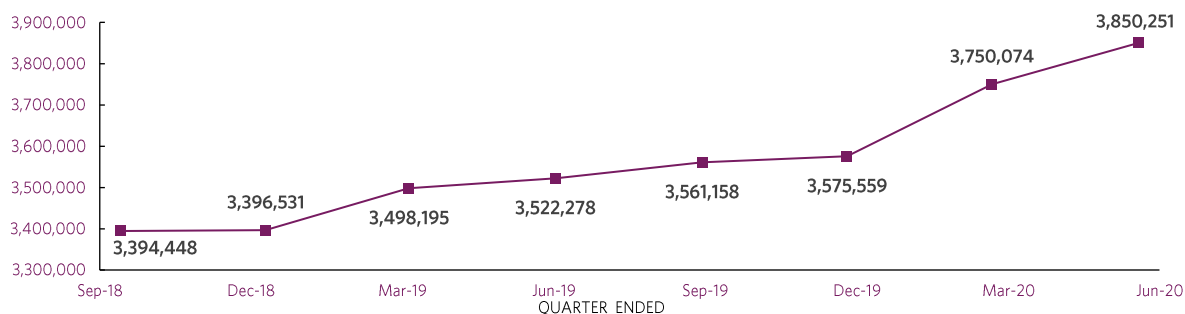
# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## OPERATING METRICS - INSURANCE SERVICES

### Membership

Membership in the UPMC Insurance Services division increased to 3,850,251 as of June 30, 2020, a 9% increase versus June 30, 2019.

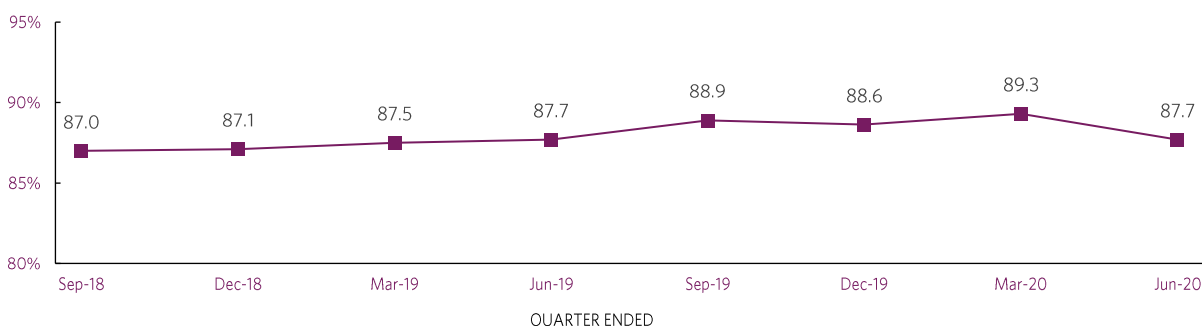


As of	June 30, 2020	June 30, 2019
Commercial Health	778,238	774,142
Medicare	193,202	191,291
Medicaid	457,033	421,470
Sub-Total Physical Health Products	1,428,473	1,386,903
Community HealthChoices	127,480	72,053
Behavioral Health	1,092,285	983,471
Sub-Total Health Products	2,648,238	2,442,427
Work Partners and Life Solutions	686,150	599,443
Ancillary Products	449,398	397,510
Evolent	66,465	82,898
<b>Total Membership</b>	<b>3,850,251</b>	<b>3,522,278</b>

### Healthcare Spending Ratio

UPMC Insurance Services healthcare spending ratio has decreased to 87.7% as of June 30, 2020 as decreases in claims expenses as a result of the COVID-19 pandemic more than offset the higher start-up costs associated with the new Community HealthChoices program.

#### Trailing Twelve-Months



# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

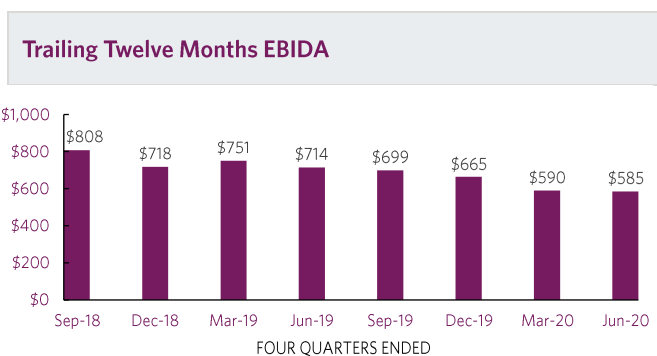
## KEY FINANCIAL INDICATORS

(Dollars in millions)

### Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the six months ended June 30, 2020 increased 2% as compared to the six months ended June 30, 2019.

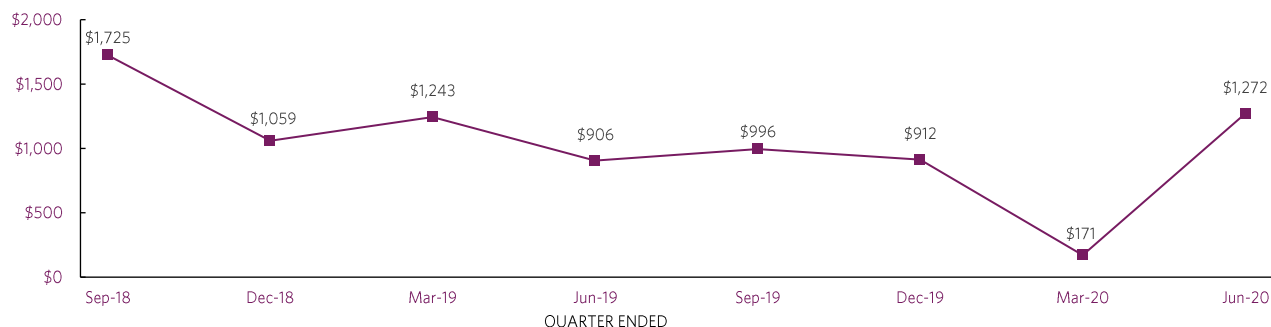
For the Six Months Ended June 30			
(in thousands)	2020	2019*	Change
Operating Income	\$ 59	\$ 79	(25)%
Depreciation and Amortization	343	314	9%
<b>Operating EBIDA</b>	<b>\$ 402</b>	<b>\$ 393</b>	<b>2%</b>



\*Prior year results have been adjusted to reflect the retrospective adoption of ASU 2017-07, *Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans*

### Unrestricted Cash and Investments Over Long Term Debt

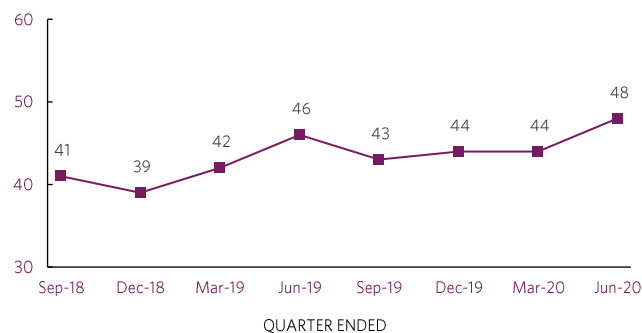
Unrestricted cash and investments over long term debt increased by \$360 million as compared to December 31, 2019 primarily as a result of increases in unrestricted cash from short-term financings in response to the COVID-19 pandemic, as well as approximately \$800 million in advance funding from CMS.



### Days in Net Accounts Receivable

Consolidated Days in Accounts Receivable continue to be lower than industry averages due to UPMC's rigorous procedures in this area. Days in Accounts Receivable increased versus prior periods due to the timing of payment from the state of Pennsylvania's Medicaid Program.

By Receivable	2020 Balance	Days	
		Jun 30, 2020	Dec 31, 2019
Patient AR	\$ 1,169	42	45
Other AR	2,057	52	43
<b>Consolidated</b>	<b>\$ 3,226</b>	<b>48</b>	<b>44</b>



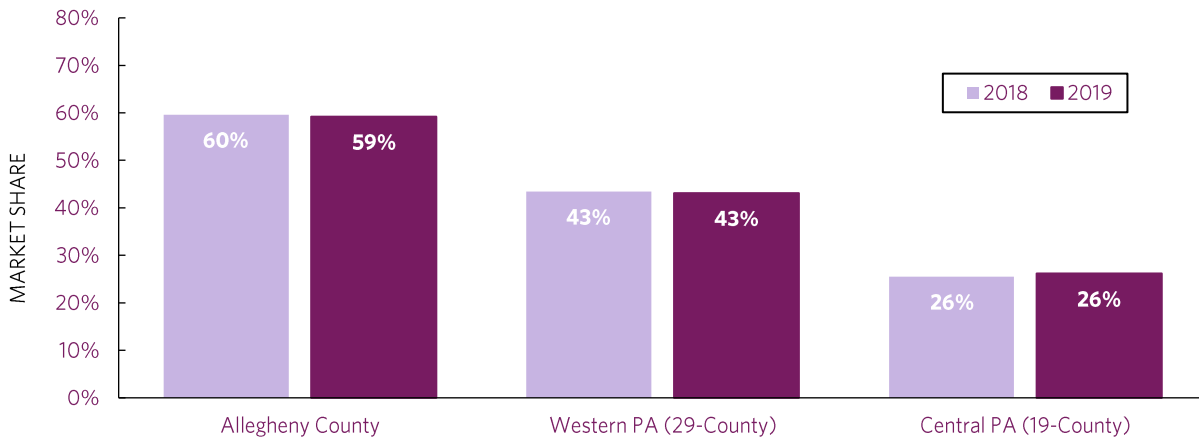
# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## Market Share

The chart below shows the change in UPMC's estimated inpatient market share by service area for the first three quarters of calendar years 2018 and 2019<sup>(1)</sup>. This is the most recent market share data currently available.

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



Source: Pennsylvania Health Care Cost Containment Council

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

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

# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

## ASSET AND LIABILITY MANAGEMENT

During the three months ended June 30, 2020, UPMC's investment portfolio returned 8.1%. As of June 30, 2020, UPMC utilized 150 ongoing external investment managers including 47 traditional managers, 11 hedge fund managers and 92 private capital managers. UPMC is also invested with an additional 39 legacy private capital and hedge fund managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of (0.1%), 4.3% and 4.7% for the trailing one-, three- and five-year periods. As of June 30, 2020, 70% of UPMC's investment portfolio could be liquidated within three days.

UPMC's annualized cost of capital during the six month period ended June 30, 2020, was 3.23%. This cost of capital includes the accrual of interest payments, the amortization of financing costs and original issue discount or premium, the ongoing costs of variable rate debt and the cash flow impact of derivative contracts. As of June 30, 2020, the interest rates on UPMC's long-term debt were approximately 79% fixed and 21% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 1.78%. The annualized interest cost for the fixed rate debt was 3.56%. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of \$600 million. As of June 30, 2020, UPMC had approximately \$84 million Letters of Credit outstanding under the credit facility leaving \$516 million available to fund operating and capital needs, of which \$500 million was drawn.

UPMC has credit facilities of \$150 million (increased from \$19 million to \$150 million from March 15 to August 14 for the 2020 calendar year and increases from May 15 to August 14 on an annual basis thereafter) and \$50 million with expiration dates in April 2022. Both of these credit facilities support the Insurance Services Division. As of June 30, 2020, both credit facilities were fully drawn.

During 2020, UPMC's original financing plan was to issue approximately \$1.75 billion in long-term, fixed rate, tax exempt debt: \$1 billion to fund capital projects and \$750 million to refinance certain existing debt (the "Original 2020 Financing Plan"), increasing debt to approximately \$5.5 billion as of December 31, 2020.

Due to the uncertainty surrounding the governmental reaction to the COVID-19 outbreak, UPMC adopted an interim 2020 financing plan to increase working capital by temporarily issuing \$2.17 billion of debt. The Interim Financings consisted of a \$500 million draw from UPMC's existing revolving credit facility and taxable financings from five banks (Royal Bank of Canada, Barclays, Wells Fargo, Key Bank and an affiliate of J.P. Morgan). The proceeds from the Interim Financings were intended to meet potential working capital needs. UPMC anticipated that, once those potential working capital needs passed, approximately \$1.2 billion of the proceeds from the Interim Financings would be used for certain of the purposes in the Original 2020 Financing Plan.

During the second quarter UPMC also issued tax exempt Series 2020 A & B Bonds to fund a portion of the capital project purposes of the Original 2020 Financing Plan and refund certain outstanding debt incurred in connection with UPMC's acquisition of UPMC Western Maryland, also as contemplated in the Original Financing Plan. Following the issuance of the 2020 A & B Bonds, the Corporation had nearly \$7 billion of debt outstanding.

During the second quarter of 2020, UPMC repaid \$420 million of the Interim Financings and directed its trustee to redeem \$163 million of debt contemplated to be refinanced as part of the Original 2020 Financing Plan on July 15, 2020. Additionally, UPMC has invested \$1 billion of its unrestricted working capital to pay for capital projects in 2021 and 2022 as contemplated by the Original Financing Plan.

# MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED JUNE 30, 2020

As of June 30, 2020, UPMC had approximately \$3.0 billion of unregulated working capital. Subject to working capital needs, UPMC intends to repay an additional amount of approximately \$900 million of debt by December 31, 2020 to achieve the targeted total of \$5.5 billion identified under the Original 2020 Financing Plan.

The table below compares reported Investing and Financing Activity for the six months ended June 30, 2020 and 2019 by type.

## Investing and Financing Activity by Type

Six Months Ended June 30	2020	2019
<i>(in thousands)</i>		
Realized gain	\$ 69,193	\$ 152,154
Interest and dividends, net of fees	37,373	49,307
Realized investment revenue	\$ 106,566	\$ 201,461
Unrealized (loss) gain on derivative contracts	(1,505)	854
Other unrealized (loss) gain	(359,133)	237,306
Investment (loss) revenue	\$ (254,072)	\$ 439,621
Gain (loss) on extinguishment of debt	240	(6,537)
Interest expense	(88,763)	(81,445)
UPMC Enterprises activity	(80,317)	(72,870)
<b>(Loss) gain from investing and financing activities</b>	<b>\$ (422,912)</b>	<b>\$ 278,769</b>

## Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of June 30, 2020, UPMC had approximately \$2.4 billion of cash and cash equivalents on hand and borrowing availability under the primary credit facility was \$516 million of which \$500 million was drawn.

Net cash provided by operating activities was \$1,339 million in the six months ended June 30, 2020 compared to \$295 million in the six months ended June 30, 2019. The increase in the current year versus the prior year is driven primarily by the receipt of approximately \$800 million in advance funding from CMS's Accelerated and Advance Payment Program. Operating EBIDA was \$402 million for the six months ended June 30, 2020, compared to \$393 million for the six months ended June 30, 2019.

Key uses of cash from investing activities for the six-month period ended June 30, 2020 include capital expenditures of \$420 million. Major capital projects included construction and improvements at UPMC Pinnacle, UPMC Susquehanna, and UPMC Mercy as well as ongoing expansion and improvement across the entirety of UPMC. Major information services projects included enhancements that are advancing UPMC's leading clinician centric computing environment, technology infrastructure that supports UPMC's diversified digital environment, investments in enterprise data analytics and other technologies that are transforming the consumer experience across the spectrum of health care.



# UTILIZATION STATISTICS

PERIOD ENDED JUNE 30, 2020

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, rehabilitation and skilled nursing patient activity for the six months ended June 30, 2020 and 2019.

	Six Months Ended June 30	
	2020	2019
Licensed Beds	8,269	8,318
<b>BEDS IN SERVICE</b>		
Medical-Surgical	4,836	4,748
Psychiatric	405	416
Rehabilitation	238	245
Skilled Nursing	1,443	1,443
Total Beds in Service	6,922	6,852
<b>PATIENT DAYS</b>		
Medical-Surgical	582,514	654,660
Psychiatric	59,068	64,417
Rehabilitation	36,174	36,868
Skilled Nursing	213,036	221,356
Total Patient Days	890,792	977,301
Average Daily Census	4,894	5,399
Observation Days	71,670	78,119
Obs Average Daily Census	394	432
<b>ADMISSIONS AND OBSERVATION CASES</b>		
Medical-Surgical	113,783	130,627
Observation Cases	43,411	50,072
Subtotal	157,194	180,699
Psychiatric	5,204	5,971
Rehabilitation	2,318	2,433
Skilled Nursing	1,900	2,493
Total Admissions and Observation Cases	166,616	191,596
Overall Occupancy	76%	85%
<b>AVERAGE LENGTH OF STAY</b>		
Medical-Surgical	5.1	5.0
Psychiatric	11.4	10.8
Rehabilitation	15.6	15.2
Skilled Nursing	112.1	88.8
Overall Average Length of Stay	7.2	6.9
Emergency Room Visits	446,684	556,076
<b>TRANSPLANTS (DOMESTIC)</b>		
Liver	108	68
Kidney	159	122
All Other	155	171
Total	422	361
<b>OTHER POST-ACUTE METRICS</b>		
Home Health Visits	387,059	407,275
Hospice Care Days	124,116	129,610
Outpatient Rehab Visits (CRS)	266,284	330,053

## OUTSTANDING DEBT

PERIOD ENDED JUNE 30, 2020

(IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$43,579
	UPMC	2007A	53,297
	UPMC	2010A	18,684
	UPMC	2010B	99,045
	UPMC	2010C	50,000
	UPMC	2010F	95,000
	UPMC	2011A	73,141
	UPMC	2017D	499,631
Monroeville Finance Authority	UPMC	2012	310,007
	UPMC	2013B	56,465
	UPMC	2014B	46,337
Pennsylvania Economic Development Financing Authority	UPMC	2013A	112,269
	UPMC	2014A	284,288
	UPMC	2015B	119,474
	UPMC	2016	241,501
	UPMC	2017A	443,766
	UPMC	2017B	95,219
	UPMC	2017C	134,593
	UPMC	2020A	278,763
Erie County Hospital Authority	Hamot Health Foundation	2010A	8,483
Pennsylvania Higher Educational Facilities Authority	UPMC	2010E	146,161
Lycoming County Authority	The Williamsport Hospital	2011	12,222
Tioga County Industrial Development Authority	Laurel Health System	2010	6,785
	Laurel Health System	2011	5,134
Dauphin County General Authority	Pinnacle Health System	2012A	136,544
	Pinnacle Health System	2016A	101,030
	Pinnacle Health System	2016B	85,170
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	8,370
	Hanover Hospital	2015	23,266
Potter County Hospital Authority	UPMC	2018A	17,885
Somerset County Hospital Authority	Somerset Hospital	2009	1,114
	Somerset Hospital	2015A	17,000
Maryland Health and Higher Education Facilities Authority	UPMC	2020B	205,609
None	UPMC	2011B	99,815
	UPMC	2018B	232
	UPMC	COVID Financings	1,248,667
	Susquehanna Health Innovation Center	New Market Tax Credit	17,362
	Somerset Management Services	2013	1,649
	Various	Financing Leases & Loans	118,054
		Swap Liabilities	7,826
<b>Total</b>			<b>\$ 6,152,037</b>

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

Source: UPMC Records

# DEBT COVENANT CALCULATIONS

PERIOD ENDED JUNE 30, 2020

## DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

	Trailing Twelve-Month Period Ended June 30, 2020	
Excess of expenses over revenues	\$	(117,416)
<b>ADJUSTED BY:</b>		
Net Unrealized Losses during Period <sup>1</sup>		253,880
Depreciation and Amortization <sup>1</sup>		667,420
Gain on Defeasance of Debt <sup>1</sup>		(306)
Inherent Contribution <sup>1</sup>		(154,066)
Realized Investment Impairments		(26,626)
Interest Expense		151,718
Revenues Available for Debt Service	\$	774,604
Historical Debt Service Requirements - 2007 Master Trust Indenture	\$	291,294
Debt Service Coverage Ratio - 2007 Master Trust Indenture		2.66X
Historical Debt Service Requirements - All Debt and Financing Leases	\$	329,059
Debt Service Coverage Ratio - All Debt and Financing Leases		2.35X

## LIQUIDITY RATIO AS OF JUNE 30, 2020

Unrestricted Cash and Investments	\$	7,775,497
Master Trust Indenture Debt	\$	5,764,243
<b>Unrestricted Cash to Master Trust Indenture Debt</b>		<b>1.35</b>

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

I hereby certify to the best of my knowledge that, as of June 30, 2020, 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.



C. Talbot Heppenstall, Jr.

Treasurer

UPMC

# Unaudited Interim Condensed Consolidated Financial Statements

FOR THE PERIOD ENDED JUNE 30, 2020

# REVIEW REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
UPMC  
Pittsburgh, Pennsylvania

We have reviewed the condensed consolidated financial information of UPMC, which comprise the condensed consolidated balance sheet as of June 30, 2020, and the related condensed consolidated statements of operations and changes in net assets for the three and six-month periods ended June 30, 2020 and 2019 and condensed consolidated cash flows for the six-month periods ended June 30, 2020 and 2019.

## Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the condensed financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

## Auditor's Responsibility

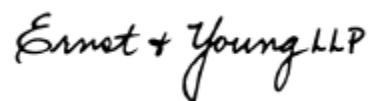
Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

## Conclusion

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

## Report on Condensed Consolidated Balance Sheet as of December 31, 2019

We have previously audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of UPMC as of December 31, 2019, 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 25, 2020. In our opinion, the accompanying condensed consolidated balance sheet of UPMC as of December 31, 2019, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Pittsburgh, Pennsylvania  
August 26, 2020

# CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(IN THOUSANDS)

	As of	
	June 30, 2020	December 31, 2019
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,401,386	\$ 351,216
Patient accounts receivable	1,169,134	1,164,840
Other receivables	2,056,878	1,348,964
Securities lending collateral	44,543	73,140
Other current assets	379,630	382,943
<b>Total current assets</b>	<b>6,051,571</b>	<b>3,321,103</b>
Board-designated, restricted, trustee and other investments	6,669,990	6,248,658
Beneficial interests in foundations and trusts	581,145	624,691
Net property, buildings and equipment	5,974,585	5,689,785
Operating lease right-of-use assets	1,042,995	1,080,715
Other assets	559,254	529,546
<b>Total assets</b>	<b>\$ 20,879,540</b>	<b>\$ 17,494,498</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 653,381	\$ 669,672
Accrued salaries and related benefits	845,359	793,243
Current portion of insurance reserves	968,365	759,520
Payable under securities lending agreement	44,543	73,140
Current portion of long-term obligations	493,572	316,162
Short-term debt	700,000	-
Other current liabilities	1,515,129	536,405
<b>Total current liabilities</b>	<b>5,220,349</b>	<b>3,148,142</b>
Long-term obligations	5,658,465	4,231,077
Pension liability	12,703	-
Long-term insurance reserves	371,356	366,100
Operating lease noncurrent liabilities	977,107	1,010,207
Other noncurrent liabilities	529,612	430,863
<b>Total liabilities</b>	<b>12,769,592</b>	<b>9,186,389</b>
Net assets without donor restrictions	6,976,715	7,141,410
Net assets with donor restrictions	1,133,233	1,166,699
<b>Total net assets</b>	<b>8,109,948</b>	<b>8,308,109</b>
<b>Total liabilities and net assets</b>	<b>\$ 20,879,540</b>	<b>\$ 17,494,498</b>

See accompanying notes

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

(IN THOUSANDS)

	Six Months Ended June 30		Three Months Ended June 30	
	2020	2019	2020	2019
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>				
Net patient service revenue	\$ 4,325,183	\$ 4,414,914	\$ 2,030,424	\$ 2,226,561
Insurance enrollment revenue	5,645,397	4,957,155	2,855,500	2,485,607
Other revenue	1,151,180	818,219	732,192	421,545
Total operating revenues	11,121,760	10,190,288	5,618,116	5,133,713
Expenses:				
Salaries, professional fees and employee benefits	3,839,873	3,600,489	1,960,066	1,816,200
Insurance claims expense	3,900,245	3,432,541	1,897,141	1,732,699
Supplies, purchased services and general	2,980,016	2,764,532	1,489,138	1,392,452
Depreciation and amortization	343,098	313,877	172,020	158,208
Total operating expenses	11,063,232	10,111,439	5,518,365	5,099,559
Operating income	58,528	78,849	99,751	34,154
Inherent contribution	166,334	9,383	(4,079)	(7,283)
Other non-operating gain	35,762	14,171	17,886	8,362
Income tax expense	(2,996)	(8,716)	(1,536)	(6,057)
After-tax income	\$ 257,628	\$ 93,687	\$ 112,022	\$ 29,176
Investing and financing activities:				
Investment (loss) revenue	(254,072)	439,621	467,517	141,987
Interest expense	(88,763)	(81,445)	(50,747)	(40,571)
Gain (loss) on extinguishment of debt	240	(6,537)	240	(6,537)
UPMC Enterprises activity:				
Portfolio company revenue	19,279	34,505	11,029	17,649
Portfolio company and development expense	(99,596)	(107,375)	(52,305)	(58,007)
(Loss) gain from investing and financing activities	(422,912)	278,769	375,734	54,521
Excess of (expenses over revenues) revenues over expenses	(165,284)	372,456	487,756	83,697
Other changes in net assets without donor restrictions	589	(26,813)	38,220	(20,693)
Change in net assets without donor restrictions	(164,695)	345,643	525,976	63,004
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>				
Contributions and other changes	14,772	6,220	(1,152)	63
Net realized and unrealized (losses) gains on restricted investments	(9,206)	7,167	(2,647)	960
Restricted net assets acquired	12,138	1,525	-	-
Assets released from restriction for operations and capital purchases	(7,624)	(7,308)	(4,374)	(2,385)
Change in beneficial interests in foundations and trusts	(43,546)	38,022	49,201	38,253
Change in net assets with donor restrictions	(33,466)	45,626	41,028	36,891
Change in net assets	(198,161)	391,269	567,004	99,895
Net assets, beginning of period	8,308,109	7,735,055	7,542,944	8,026,429
Net assets, end of period	\$ 8,109,948	\$ 8,126,324	\$ 8,109,948	\$ 8,126,324

See accompanying notes

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

Six Months Ended June 30

	2020	2019
<b>OPERATING ACTIVITIES</b>		
Change in total net assets	\$ (198,161)	\$ 391,269
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	343,098	313,877
Change in beneficial interest in foundations and trusts	43,546	(38,022)
Restricted contributions and investment revenue	(5,566)	(13,387)
Restricted net assets acquired through affiliations	(12,138)	(1,525)
Unrealized losses (gains) on investments	359,133	(237,306)
Realized gains on investments	(106,566)	(152,154)
Net change in non-alternative investments	538,822	269,595
Inherent contribution	(166,334)	(9,383)
Changes in operating assets and liabilities:		
Accounts receivable	(662,228)	(468,905)
Other current assets	43,577	140,829
Accounts payable and accrued liabilities	3,153	86,003
Insurance reserves	214,101	69,352
Other current liabilities	944,116	(137,288)
Other noncurrent assets and liabilities	(14,280)	74,294
Other operating changes	15,145	7,751
Net cash provided by operating activities	<b>1,339,418</b>	295,000
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment (net of disposals)	(413,556)	(490,918)
UPMC Enterprises investments in joint ventures	(20,000)	(10,000)
Cash acquired through affiliations	43,011	21,272
Net change in investments designated as nontrading	(7,837)	(15,317)
Net change in alternative investments	(48,271)	12,361
Net change in other assets	39,896	15,247
Net cash used in investing activities	<b>(406,757)</b>	(467,355)
<b>FINANCING ACTIVITIES</b>		
Repayments of long-term obligations	(966,821)	(989,738)
Borrowings of long-term obligations	3,078,764	1,132,132
Restricted contributions and investment income	5,566	13,387
Net cash provided by financing activities	<b>2,117,509</b>	155,781
Net change in cash, cash equivalents, and restricted cash	<b>3,050,170</b>	(16,574)
Cash, cash equivalents, and restricted cash, beginning of period	<b>351,216</b>	277,324
Cash, cash equivalents, and restricted cash, end of period	<b>\$ 3,401,386</b>	\$ 260,750
Cash held in board designated, restricted, trustee, and other investments	<b>(1,000,000)</b>	-
Total cash and cash equivalents on condensed consolidated balance sheet	<b>\$ 2,401,386</b>	\$ 260,750
<b>SUPPLEMENTAL INFORMATION</b>		
Finance lease obligations incurred to acquire assets	<b>\$ 9,422</b>	\$ 5,535

See accompanying notes



# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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, 2019.

## 2. COVID-19

The potential for a global or regional pandemic, such as the current COVID-19 pandemic, is a potential risk for all companies within the healthcare industry and beyond. As an integrated healthcare delivery and finance system, all three divisions within UPMC can potentially be exposed to various risks presented by a pandemic, whether financial, operational, regulatory, brand or reputational in nature. UPMC has systemwide and division-specific business continuity plans and contingency preparation activities to address the wide-ranging people, process and technology issues that can prospectively manifest themselves in the form of different risks associated with such pandemic scenarios and to ensure the continued operations of critical functions/activities. The primary focus in all such preparedness activities is the health, well-being and safety of our employees, patients, members, and other constituents, which constitutes the most substantial potential risk in pandemic situations. However, the potential inability to keep pace with, and proactively manage, the rapidly evolving, dynamic and developing scenarios that pandemics tend to present is a potential organizational risk that UPMC continually addresses and seeks to mitigate.

UPMC and its subsidiaries have and expect to continue to experience disruption in operations as a result of the COVID-19 pandemic. Primarily in response to directives from various elected officials to attempt to quell the spread of the disease, UPMC's Health Services division experienced reductions in volumes during the second quarter before volumes began returning to near pre-COVID-19 levels towards the end of June. While demand for our services is expected to rebound in the future, we have taken, and continue to take, various actions to increase our liquidity and mitigate the effect of the pandemic. The outcome and ultimate effect of COVID-19 on UPMC's financial statements cannot be determined at this time.

On March 27, 2020, the federal government enacted the CARES Act that provides, among other funding sources, relief funds to hospitals and other healthcare providers on the front lines of the COVID-19 response. This funding is to be used to support healthcare related expenses or lost revenue attributable to COVID-19. Beginning in April 2020 through June 30, 2020, over 90 individual UPMC facilities have received an aggregate of approximately \$340,000 of CARES Act funding, of which approximately \$257,000 was recognized as operating revenue in the second quarter. Since June 30, 2020, UPMC entities have received additional funding of approximately \$60,000. The remaining government payments received will be recognized in operations as other operating revenue during the remainder of 2020, subject to complying with certain terms and conditions and on-going regulatory clarifications. Additionally, 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") has expanded the current Accelerated and Advance Payment Program. Beginning in April 2020, through the date of issuance of this report, 185 individual

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national provider identifier entities of UPMC, an identifier used by CMS for provider facilities, received advance funding that aggregated to a total of approximately \$800,000 and is recorded in other current liabilities in the condensed consolidated balance sheet as of June 30, 2020. Continued claims submissions and reimbursements will occur after the issuance of the accelerated/advanced payment for 120 days, at which time a recoupment process will begin and every new claim submitted to CMS will be offset to repay the accelerated/advanced payment.

In response to the effect of COVID-19 on UPMC's operating results and in accordance with the provisions of ASC 350 *Intangibles - Goodwill and Other* and ASC 360 *Property, Plant and Equipment*, UPMC assessed its long lived and intangible assets for indicators of impairment. While COVID-19 did adversely impact UPMC's operating results, UPMC does not believe that the effects are significant enough or of a long enough duration to indicate impairment as of and for the three and six month periods ended June 30, 2020. UPMC will continue to assess potential indicators of impairment in all future periods.

## 3. BUSINESS COMBINATIONS

On February 1, 2020, UPMC and Western Maryland Health System ("WMHS"), executed an Integration and Affiliation Agreement (the "Agreement") providing for an affiliation between UPMC and WMHS. The transaction is intended to preserve and enhance the mission of WMHS and to advance its ability to provide high-quality health services to its communities. On the date of the affiliation, the articles of incorporation and bylaws of WMHS were amended such that UPMC became the sole corporate member.

As a result of this affiliation, UPMC acquired approximately \$534,000 of total assets, consisting of \$241,000 of property, plant and equipment, \$173,000 of cash and investments, \$78,000 of current and long-term assets and \$42,000 of accounts receivable, assumed approximately \$367,000 of total liabilities including \$210,000 of long-term debt obligations, \$97,000 of pension obligations, and current and long-term liabilities of \$60,000, and acquired approximately \$1,000 of restricted net assets.

The purchase accounting is preliminary primarily subject to the completion of the fair value assessment. Material adjustments, if any, to provisional amounts in subsequent periods, will be reflected as required as adjustments to assets and liabilities acquired, along with an offsetting adjustment to inherent contribution in the period in which the purchase price allocation is completed. For this affiliation, UPMC applied the not-for-profit business combination accounting guidance. The guidance primarily characterizes business combinations between not-for-profit entities as nonreciprocal transfers of assets resulting in the contribution of the acquiree's net assets to the acquirer. The guidance prescribes that the acquirer recognize an excess of the acquisition date fair value of the unrestricted net assets acquired over the fair value of the consideration transferred as a separate credit in its statement of operations as of the acquisition date. Accordingly, UPMC recognized an inherent contribution related to the unrestricted net assets acquired in the transaction of approximately \$166,000 in its statement of operations and changes in net assets for the six month period ended June 30, 2020. The inherent contribution recorded for the period is based on the preliminary fair market values of the unrestricted net assets acquired. UPMC Western Maryland, contributing \$135,000 of total operating revenues to UPMC's consolidated results, would have contributed an additional \$32,000 of total operating revenues had it been consolidated for the entire six month period ended June 30, 2020.

## 4. NEW ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncements were released or adopted that will have an effect on UPMC's financial statements.

## 5. REVENUE

### Net Patient Service Revenue

UPMC's net patient service revenue is reported at the amount that reflects the consideration to which UPMC expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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insurers and government programs), and others and include 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. 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. Reimbursement 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, and offers those uninsured patients a discount, either by policy or law, from standard charges. UPMC estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods if final settlements differ from estimates. Adjustments arising from a change to previously estimated transaction prices were not significant in the three or six months ended June 30, 2020 or 2019.

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 not reported as net patient service revenue.

The composition of net patient service revenue for the three and six months ended June 30, 2020 and 2019, primarily resulting from patients in the western Pennsylvania region, are as follows:

Periods Ended June 30	Six Months Ended		Three Months Ended	
	2020	2019	2020	2019
Medicare	38%	40%	38%	40%
Commercial	38%	38%	37%	38%
Medicaid	16%	14%	17%	14%
Self-pay/other	8%	8%	8%	8%
	100%	100%	100%	100%

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Laws and regulations governing the Medicare and Medical Assistance programs are complex and subject to interpretation. UPMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations is subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change.

## Insurance Enrollment Revenue

UPMC's insurance subsidiaries (collectively, "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 commercial, Medicare, Medicaid and behavioral health contracts. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. UPMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the programs. As a result, there is at least a reasonable possibility that recorded estimates may change.

## Other Revenue

UPMC's other revenue consists of various contracts related to its Health Services and Insurance Services divisions. These contracts vary in duration and in performance obligations. In evaluating these contracts for compliance with ASU 2014-09, *Revenue from Contract with Customers*, there were no changes to the nature, timing or extent of revenues previously recognized or how revenues are recognized prospectively. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collectability is probable.

## 6. FAIR VALUE MEASUREMENTS

As of June 30, 2020, 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 of UPMC's alternative investments are measured using the equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, includes:

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

The following tables represent UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2020 and December 31, 2019. 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

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 the net asset value practical expedient as prescribed by ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. 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 ("NAV") 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. With the adoption of ASU 2016-01, *Financial Instruments*, certain of UPMC's alternative investments are now utilizing NAV to calculate fair value and are included in other investments in the following tables.

## FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2020

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
<b>ASSETS</b>					
Fixed income	\$ 539,803	\$ 1,390,491	\$ -	\$ -	\$ 1,930,294
Domestic equity	809,175	15,750	-	-	824,925
International equity	622,711	671	-	-	623,382
Public real estate	61,698	-	-	-	61,698
Long/short equity	94,940	-	-	-	94,940
Absolute equity	17,436	-	-	-	17,436
Commodities	6,119	-	-	-	6,119
Derivative instruments	-	624	-	-	624
Securities on loan	188,235	-	-	-	188,235
Securities lending collateral	44,543	-	-	-	44,543
Cash	1,000,000	-	-	-	1,000,000
Alternative and other investments at NAV	-	-	-	1,204,760	1,204,760
Total assets measured at fair value on a recurring basis	\$ 3,384,660	\$ 1,407,536	\$ -	\$ 1,204,760	\$ 5,996,956
<b>LIABILITIES</b>					
Payable under securities lending agreement	\$ (44,543)	\$ -	\$ -	\$ -	\$ (44,543)
Derivative instruments	-	(7,827)	-	-	(7,827)
Total liabilities measured at fair value on a recurring basis	\$ (44,543)	\$ (7,827)	\$ -	\$ -	\$ (52,370)

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2019

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
<b>ASSETS</b>					
Fixed income	\$ 744,751	\$ 1,248,921	\$ -	\$ -	\$ 1,993,672
Domestic equity	792,501	17,915	-	-	810,416
International equity	723,059	118	-	-	723,177
Public real estate	69,746	-	-	-	69,746
Long/short equity	65,424	-	-	-	65,424
Absolute equity	24,077	-	-	-	24,077
Commodities	5,379	-	-	-	5,379
Derivative instruments	-	532	-	-	532
Securities on loan	218,933	-	-	-	218,933
Securities lending collateral	73,140	-	-	-	73,140
Alternative and other investments at NAV	-	-	-	1,664,883	1,664,883
Total assets measured at fair value on a recurring basis	\$ 2,717,010	\$ 1,267,486	\$ -	\$ 1,664,883	\$ 5,649,379
<b>LIABILITIES</b>					
Payable under securities lending agreement	\$ (73,140)	\$ -	\$ -	\$ -	\$ (73,140)
Derivative instruments	-	(6,230)	-	-	(6,230)
Total liabilities measured at fair value on a recurring basis	\$ (73,140)	\$ (6,230)	\$ -	\$ -	\$ (79,370)

## 7. FINANCIAL INSTRUMENTS

UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on its investments in debt and equity securities as investment revenue in the condensed consolidated statements of operations and changes in net assets. Unrealized gains and losses on donor-restricted assets are recorded as changes in net assets with donor restrictions in the condensed consolidated statements of operations and changes in net assets. Gains and losses on the sales of securities are determined by the average cost method. Realized gains and losses are included in investment revenue in the condensed consolidated statements of operations and changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations. Cash and cash equivalents and investments recorded at fair value aggregate to \$8,353,175 and \$5,926,923 at June 30, 2020 and December 31, 2019, respectively. Included in board designated, restricted, trustee and other investments on the condensed consolidated balance sheet as of June 30, 2020, was \$1,000,000 of cash that was board designated as to its use and subsequent to June 30, 2020, was transferred into an investment account.

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 \$718,201 and \$672,951 of alternative investments accounted for under the equity method, which approximates fair value, at June 30, 2020 and December 31, 2019, 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. Total collateral is required to have a market value between 102% and 105% of the market value of securities loaned. As of June 30, 2020, securities loaned, of which UPMC maintains ownership, total \$188,235 and total collateral (cash

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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and noncash) received related to the securities loaned was \$195,673.

In May 2020, UPMC issued tax exempt Series 2020A and 2020B of revenue bonds with a total par value of \$449,585, as well as Series 2020D notes totaling \$750,000, to fund capital projects and refund certain outstanding debts. Additionally, UPMC issued taxable instruments of \$300,000 and \$200,000 during the six months ended June 30, 2020. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of \$600,000. As of June 30, 2020, UPMC had approximately \$84,000 in letters of credit outstanding under the credit facility leaving \$516,000 available to fund operating and capital needs, of which \$500,000 was drawn. Additionally, UPMC has credit facilities of \$150,000 (increased from \$19,000 to \$150,000 million from March 15 to August 14 for the 2020 calendar year and increases from May 15 to August 14 on an annual basis thereafter) and \$50,000 with expiration dates in April 2022. Both of these credit facilities support the Insurance Services Division. As of June 30, 2020, both credit facilities were fully drawn.

## 8. DERIVATIVE INSTRUMENTS

UPMC uses derivative financial instruments to manage exposures on its debt. By using derivatives to manage these risks, UPMC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivatives. When the fair value of a derivative is positive, the counterparty owes UPMC, which creates credit risk for UPMC. When the fair value of a derivative is negative, UPMC owes the counterparty and, therefore, it does not incur credit risk. UPMC minimizes the credit risk in derivatives by entering into transactions that require the counterparty to post collateral for the benefit of UPMC based on the credit rating of the counterparty and the fair value of the derivative. If UPMC has a derivative in a liability position, the counterparty bears UPMC's credit risk and fair market values could be adjusted downward. Market risk is the effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

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

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

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
				Jun 30, 2020	Dec 31, 2019
Floating to fixed	2025	3.60%	68% one-month LIBOR	\$ 70,220	\$ 70,220
Basis	2021	SIFMA Index <sup>1</sup>	67% three-month LIBOR plus .2077%	7,375	14,485
Basis	2037	SIFMA Index <sup>1</sup>	67% three-month LIBOR plus .3217%	46,095	46,095
Floating to fixed	2024	1.413%	67% one-month LIBOR	8,500	8,500
				\$ 132,190	\$ 139,300

<sup>1</sup>The SIFMA Index is a 7-day high-grade market index comprised of tax-exempt variable rate demand obligations.

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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 June 30, 2020 and December 31, 2019 which are not offset by counterparty or by type of item hedged:

	Jun 30, 2020	Dec 31, 2019
Other assets	\$ 624	\$ 532
Long-term obligations	(7,827)	(6,230)
	<b>\$ (7,203)</b>	<b>\$ (5,698)</b>

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 June 30, 2020 and December 31, 2019 are designated as hedging instruments and as such, changes in fair value are recognized in investing and financing activities as investment revenue in the condensed consolidated statements of operations and changes in net assets. Certain of UPMC's derivatives contain provisions that require UPMC's debt to maintain an investment grade credit rating from certain major credit rating agencies. If UPMC's debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivatives could request payment or demand immediate and ongoing full overnight collateralization on derivatives in net liability positions.

## 9. PENSION PLANS

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

The components of net periodic pension cost, of which only service cost is included in operating income on the condensed consolidated statements of operations and changes in net assets, for the Plans are as follows:

	Six Months Ended June 30		Three Months Ended June 30	
	2020	2019	2020	2019
Service cost	\$ 76,620	\$ 59,636	\$ 38,310	\$ 30,268
Interest cost	37,762	47,739	18,876	23,678
Expected return on plan assets	(84,240)	(78,961)	(42,120)	(40,055)
Recognized net actuarial loss	13,344	19,679	6,672	9,329
Amortization of prior service credit	(2,628)	(2,628)	(1,314)	(1,314)
Net periodic pension cost	<b>\$ 40,858</b>	<b>\$ 45,465</b>	<b>\$ 20,424</b>	<b>\$ 21,906</b>



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## 10. LEASES

UPMC has operating and finance leases for corporate offices, physician offices and various equipment types, among others. These lease arrangements have remaining lease terms of one year to 64 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:

	As of June 30 2020
<b>OPERATING LEASES</b>	
Operating lease right-of-use assets	\$ 1,042,995
Other current liabilities	117,313
Operating lease liabilities	977,107
<b>Total operating lease liabilities</b>	<b>\$ 1,094,420</b>
<b>FINANCE LEASES</b>	
Property, plant and equipment, net	\$ 93,895
Other current liabilities	23,484
Other noncurrent liabilities	60,227
<b>Total finance lease liabilities</b>	<b>\$ 83,711</b>

Undiscounted maturities of lease liabilities were as follows:

For the Years Ended December 31	Operating Leases	Finance Leases
2020 (rest of year)	\$ 75,007	\$ 26,084
2021	137,620	22,904
2022	126,100	15,396
2023	120,040	7,181
2024	108,968	3,244
Thereafter	810,839	22,022

## 11. CONTINGENCIES

On October 9, 2012, UPMC received a Civil Investigative Demand (“CID”) from the Department of Justice (“DOJ”) that sought records relating to 40 surgical procedures performed between January 25, 2008 and June 24, 2010. UPMC timely responded to that CID. In November 2013, the DOJ advised UPMC that the CID had been served as part of the DOJ’s investigation of allegations asserted by Relators in a federal qui tam lawsuit filed under seal. On July 27, 2016, the DOJ announced that it had reached an agreement with UPMC to settle certain allegations that UPMC had violated the False Claims Act for approximately \$2,500. UPMC admitted no liability in settling those claims. The DOJ declined to intervene in the remaining allegations of the Relators’ lawsuit, which was also unsealed on July 27, 2016. In their Second Amended Complaint against UPMC and UPP, Inc., Relators allege that UPMC violated the False Claims Act violations, by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. On March 27, 2018, the Court granted UPMC’s motion to dismiss all claims with prejudice. On September 17, 2019, the Third Circuit Court of Appeals reversed the Court’s Order. On December 20, 2019, the Third Circuit vacated its September 17, 2019 Order and issued a new Order that also reversed the trial court’s dismissal Order. On January 28, 2020, UPMC answered the Second Amended Complaint. Discovery is proceeding. The outcome and ultimate effect on UPMC’s financial statements cannot be determined at this time.

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In May 2015, PCS sued UPMC Health Network, UPMC Benefit Management Services, UPMC Health Benefits, and a PCS competitor in the United States District Court for the Western District of Pennsylvania, asserting four antitrust related claims. In August 2015, PCS filed an amended complaint, removing UPMC Health Network and adding UPMC, a Pennsylvania nonprofit nonstock corporation as a party. On March 27, 2019, the Court granted summary judgment for the UPMC defendants on all counts. On August 12, 2020, the Third Circuit Court of Appeals affirmed the district court's Order. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

On June 14, 2019, Homestead Strategic Holdings Inc. and certain of its subsidiaries filed a Complaint with the Pennsylvania Department of State challenging the Institution of Purely Public Charity Act status of UPMC, UPMC Health Coverage, Inc. and UPMC Susquehanna and is seeking arbitration of its claims. The UPMC Defendants moved to dismiss the Complaint and terminate the arbitration. The arbitrator denied that motion and scheduled arbitration for October 2020. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

On July 29, 2019, UPMC received two grand jury subpoenas and an unexecuted search warrant from the U.S. Department of Justice seeking various records from one of UPMC's clinical departments. UPMC received a Civil Investigative Demand from DOJ about that same department on January 15, 2020. UPMC is complying with the subpoenas, search warrant and CID. The ultimate outcome and effect on UPMC's financial condition are unknown.

On January 24, 2020, a putative class action lawsuit was filed against UPMC in the Court of Common Pleas of Allegheny County, Pennsylvania. The state court action alleges unauthorized disclosures of provider-patient communications and violations of the Pennsylvania Wiretapping and Electronic Surveillance Control Act, the Pennsylvania Unfair Trade Practices and Consumer Protection Law, and common law. On April 30, 2020, UPMC removed the action to federal court. On July 31, 2020, the district court denied Plaintiffs' to remand the matter to state court. Plaintiffs have moved to certify the Court's denial for interlocutory appellate review. UPMC plans to oppose that motion. The ultimate outcome and effect on UPMC's financial condition cannot be determined at this time.

On or about June 8, 2020, a False Claims Act lawsuit that had been filed against UPMC in federal court in September 2019, was unsealed after the Department of Justice filed a notice of its decision not to intervene in the matter. Among other things, the Relator alleges in the suit that certain UPMC physicians allegedly secured patients' informed consent the wrong way by delegating the informed consent process to other practitioners. On August 7, 2020, UPMC moved to dismiss the Relator's claims. The ultimate outcome and effect on UPMC's financial condition cannot be determined at this time.

## 12. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to June 30, 2020 through August 26, 2020, 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, other than as disclosed in Notes 2 and 7.