



UPMC AUDITED CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

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REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

The Board of Directors
UPMC
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated financial statements of UPMC and subsidiaries, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

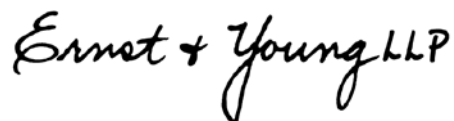
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UPMC and subsidiaries at June 30, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

Pittsburgh, Pennsylvania
September 5, 2013

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	June 30	
	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 203,118	\$ 245,824
Patient accounts receivable, net of allowance for uncollectible accounts of \$116,974 at June 30, 2013 and \$130,632 at June 30, 2012	615,316	602,911
Other receivables	514,329	489,319
Other current assets	130,405	120,687
Total current assets	1,463,168	1,458,741
Board-designated, restricted, trustee and other investments	4,001,631	3,725,440
Beneficial interests in foundations	379,932	325,525
Property, buildings and equipment:		
Land and land improvements	356,663	312,909
Buildings and fixed equipment	4,617,051	4,169,085
Movable equipment and internal-use software development costs	2,286,731	2,078,151
Capital leases	140,570	154,772
Construction in progress	102,104	392,770
	7,503,119	7,107,687
Less allowance for depreciation	(3,778,042)	(3,512,106)
	3,725,077	3,595,581
Other assets	323,759	376,184
Total assets	\$ 9,893,567	\$ 9,481,471
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 381,435	\$ 412,732
Accrued salaries and related benefits	481,125	445,728
Current portion of insurance reserves	336,542	291,899
Current portion of long-term obligations	163,859	150,250
Other current liabilities	268,954	366,951
Total current liabilities	1,631,915	1,667,560
Long-term obligations	3,096,010	3,020,264
Pension liability	130,809	240,470
Long-term insurance reserves	256,339	228,857
Other noncurrent liabilities	161,788	149,101
Total liabilities	5,276,861	5,306,252
Unrestricted net assets	4,002,255	3,602,674
Restricted net assets	614,451	572,545
Total net assets	4,616,706	4,175,219
Total liabilities and net assets	\$ 9,893,567	\$ 9,481,471

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(IN THOUSANDS)

	Twelve Months Ended June 30	
	2013	2012
UNRESTRICTED NET ASSETS		
Net patient service revenue:		
Patient service revenue (net of contractual allowances and discounts)	\$5,378,339	\$5,491,950
Provision for bad debts	(211,633)	(233,995)
Net patient service revenue less provision for bad debts	\$5,166,706	\$5,257,955
Insurance enrollment revenue	4,257,230	3,642,733
Other revenue	764,503	735,933
Total operating revenues	10,188,439	9,636,621
Expenses:		
Salaries, professional fees and employee benefits	3,984,082	3,724,710
Supplies, purchased services and general	5,648,558	5,166,104
Depreciation and amortization	423,652	394,521
Total operating expenses	10,056,292	9,285,335
Operating income (excluding income tax expense and other operating income (loss))	132,147	351,286
Income tax expense	(3,056)	(2,876)
Other operating income (loss)	11,192	(636)
After-tax operating income	140,283	347,774
Investing and financing activities:		
Investment revenue (loss)	352,451	(6,459)
Interest expense	(128,926)	(120,605)
Loss on extinguishment of debt	(4,418)	-
Gain (loss) from investing and financing activities	219,107	(127,064)
Excess of revenues over expenses	359,390	220,710
Other changes in unrestricted net assets		
Decrease (increase) in postretirement benefits liabilities	41,967	(89,083)
Assets released from restriction for capital purchases	20,359	5,153
Other changes in unrestricted net assets	(22,135)	(23,357)
Increase in unrestricted net assets	399,581	113,423
RESTRICTED NET ASSETS		
Contributions	22,851	28,675
Net realized and unrealized gains (losses) on restricted investments	9,404	(1,416)
Assets released from restriction for operations and capital purchases	(21,603)	(9,152)
Net increase (decrease) in beneficial interests in foundations	31,254	(18,819)
Increase (decrease) in restricted net assets	41,906	(712)
Increase in net assets	441,487	112,711
Net assets, beginning of period	4,175,219	4,062,508
Net assets, end of period	\$4,616,706	\$4,175,219

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Twelve Months Ended June 30	
	2013	2012
OPERATING ACTIVITIES		
Increase in net assets	\$ 441,487	\$ 112,711
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	423,652	394,521
Provision for bad debts	211,633	233,995
Change in beneficial interest in foundations	(54,407)	18,819
Change in pension liability	(109,477)	85,428
Restricted contributions and investment income	(17,255)	(27,259)
Net change in trading securities	(265,626)	(145,865)
Other operating income (loss)	-	(7,954)
Changes in operating assets and liabilities:		
Accounts receivable	(249,048)	(413,262)
Other current assets	(9,718)	(21,275)
Accounts payable and accrued liabilities	4,100	83,818
Insurance reserves	72,125	37,798
Other current liabilities	(97,953)	99,387
Other noncurrent liabilities	12,503	(11,995)
Net cash provided by operating activities	362,016	438,867
INVESTING ACTIVITIES		
Purchase of property and equipment (net of disposals)	(471,156)	(573,378)
Investments in joint ventures	(29,000)	(27,000)
Net increase in investments designated as nontrading	(10,565)	(15,154)
Net decrease in other assets	45,452	39,406
Net cash used in investing activities	(465,269)	(576,126)
FINANCING ACTIVITIES		
Repayments of long-term obligations	(371,174)	(232,669)
Borrowings of long-term obligations	414,466	201,775
Restricted contributions and investment income	17,255	27,259
Net cash provided by (used in) financing activities	60,547	(3,635)
Net change in cash and cash equivalents	(42,706)	(140,894)
Cash and cash equivalents, beginning of period	245,824	386,718
Cash and cash equivalents, end of period	\$ 203,118	\$ 245,824
SUPPLEMENTAL INFORMATION		
Capital lease obligations incurred to acquire assets	\$ 46,019	\$ 15,715

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

1. ORGANIZATIONAL OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UPMC is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code ("Code") as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pennsylvania, UPMC is one of the leading integrated delivery and financing systems in the United States. UPMC is an integrated global health enterprise leveraging medical expertise, geographic reach, and financial stability in a model of care excellence that can transform health care nationally and internationally. 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 consolidated financial statements include the accounts of UPMC and its subsidiaries. The consolidated financial statements are comprised of domestic and foreign nonprofit and for-profit entities that maintain separate books and records as part of their legal incorporation. Intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and investments, which are so near to maturity (maturity of three months or less when purchased) that they present insignificant risk of changes in value.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts in the period in which services are provided. The majority of UPMC's services are rendered to patients under Medicare, Highmark Blue Cross Blue Shield ("Highmark"), and Medical Assistance programs. Reimbursement under these programs is based on a combination of prospectively determined rates and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents.

For the years ended June 30, 2013 and 2012, the percentage of patient service revenue, net of contractual allowances and discounts, derived from third-party payers and self-pay patients is as follows:

Year Ended	June 30	
	2013	2012
Third party	94%	94%
Self-pay	6%	6%
	100%	100%

In 2013 and 2012, the percentage of net patient service revenue derived from Medicare, Highmark, Medical Assistance, and national payers is as follows:

Year Ended	June 30	
	2013	2012
Medicare	33%	33%
Highmark	32%	30%
Medical Assistance	10%	11%
National payers	10%	10%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Laws and regulations governing the Medicare and Medical Assistance programs are extremely complex and subject to interpretation. Compliance with such laws and regulations are subject to government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change.

Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue for 2013 and 2012 was increased by approximately \$9,160 and \$43,378, respectively, for prior-year settlements.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. UPMC records a provision for bad debts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and copayment balances due for which third-party coverage exists for a portion of their balance. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. The decrease in the provision for bad debts is driven by charity care eligibility. Accounts receivable are written off after collection efforts have been followed in accordance with internal policies. Significant concentrations of net patient accounts receivable at June 30, 2013 and 2012, include:

Year Ended	June 30	
	2013	2012
Highmark	32%	30%
Medicare	17%	19%
National payers	11%	12%
Medical Assistance	7%	7%

Board-Designated, Restricted, Trusteed, and Other Investments

Substantially all of UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as investment revenue in the consolidated statements of operations and changes in net assets. UPMC's investments in debt and equity securities that are donor-restricted assets are designated as nontrading. Unrealized gains and losses on donor-restricted assets are recorded as changes in restricted net assets in the 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 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. These investments predominantly include those maintained in Master Trust Funds ("MTF") and are summarized as nonalternative investments in Note 4.

Investments in limited partnerships that invest in marketable securities (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. The values provided by the respective partnerships are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, UPMC's holdings reflect net contributions to the partnership and an allocated share of realized and unrealized investment income and expenses. The investments may individually expose UPMC to securities lending, short sales, and trading in futures and forward contract options and other derivative products. UPMC's risk is limited to its carrying value for these lending and derivatives transactions. Amounts can be divested only at specified times. The financial statements of the limited partnerships are audited annually, generally as of December 31. These investments are summarized as alternative investments in Note 4.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Investments in limited partnerships that invest in nonmarketable securities (private equity) are primarily recorded at cost 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%. These investments are periodically evaluated for impairment. These investments are summarized as alternative investments in Note 4.

Financial Instruments

Cash and cash equivalents and investments recorded at fair value aggregate \$2,497,325 and \$2,230,808 at June 30, 2013 and 2012, respectively. The fair value of these instruments is based on market prices as estimated by financial institutions. The fair value of long-term debt at June 30, 2013 and 2012, is \$3,355,582 and \$3,383,968, respectively, based on market prices as estimated by financial institutions. The fair value of amounts owed to counterparties under derivative contracts at June 30, 2013 and 2012, is \$21,615 and \$27,861, respectively, based on pricing models that take into account the present value of estimated future cash flows.

Beneficial Interests in Foundations

Several of UPMC's subsidiary hospitals have foundations that, according to their bylaws, were formed for the exclusive purpose of supporting and furthering the mission of the respective hospital. The foundations are separate corporations and are not liable for the obligations of UPMC, including any claims of creditors of any UPMC entities. The net assets of certain foundations are included in the consolidated balance sheets as beneficial interests in foundations and restricted net assets because the hospitals' use of these assets is at the discretion of the foundations' independent board of directors.

Beneficial interests in foundations of \$379,932 and \$325,525 and the net assets of consolidated foundations of \$34,842 and \$33,861 as of June 30, 2013 and 2012, respectively, are not pledged as collateral for UPMC's debt.

Property, Buildings, and Equipment

Property, buildings, and equipment are recorded at cost or, if donated or impaired, at fair market value at the date of receipt or impairment. Interest cost incurred on borrowed funds (net of interest earned on such funds) during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Costs associated with the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage.

Depreciation is computed using the straight-line method at rates designed to amortize the assets over their estimated useful lives (predominantly ranging from 3 to 40 years) and includes amortization related to capitalized leases. Certain newly constructed buildings have estimated useful lives up to 60 years.

Asset Impairment

UPMC evaluates the recoverability of the carrying value of long-lived assets by reviewing long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and adjusts the asset cost to fair value if undiscounted cash flows are less than the carrying amount of the asset.

Other Assets

Investments in individual entities in which UPMC has the ability to exercise significant influence but does not control, generally 20% to 50% ownership, are reported using the equity method of accounting. All other noncontrolled investments, generally less than 20% ownership, are carried at cost. Other assets include approximately \$98,550 and \$104,230 at June 30, 2013 and 2012, respectively, relating to investments in partnerships that provide health care, management, and other goods and services to UPMC, its affiliates, and the community at large.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of June 30, 2013 and 2012, goodwill of \$112,854 and \$115,401, respectively, is recorded in UPMC's consolidated balance sheets as other assets. Goodwill is reviewed annually for impairment, or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. In connection with changes in accounting standards, which were adopted for certain UPMC reporting units in 2012, UPMC has the option to qualitatively assess goodwill for impairment before completing a quantitative assessment. Under the qualitative approach, if, after assessing the totality of events or circumstances, including both macroeconomic, industry and market factors, and entity-specific factors, UPMC determines it is likely (more likely than not) that the fair value is greater than its carrying amount, then the quantitative impairment analysis is not required.

The impairment test for goodwill requires a comparison of the fair value of each reporting unit that has goodwill associated with its operations with its carrying amount, including goodwill. The impairment analysis includes estimating the fair market value of each of the reporting units that have goodwill associated with their operations using discounted cash flow and multiples of cash earnings valuation techniques, plus valuation comparisons to market participant entities, if any. These valuation methods require UPMC to make estimates and assumptions regarding future operating results, cash flows, changes in working capital and capital expenditures, profitability, and the cost of capital. Although UPMC believes that the estimates and assumptions used are reasonable, actual results could differ from those estimates and assumptions. In association with our fiscal year 2013 goodwill impairment assessment, a sensitivity analysis was conducted to further assess the effect of changes in the applied assumptions used to determine a reporting unit's fair value. Based upon the additional analysis, it was determined that there was no impairment to be recognized. UPMC will continue to monitor the performance of this reporting unit in relation to the assumptions in their analysis.

Health Insurance Revenue and Costs

UPMC's insurance subsidiaries (collectively, "Health Plans") provide health care services on a prepaid basis under various contracts. The Health Plans provide medical services to subscribing participants under agreements that provide for capitated payments based on the number of subscribing enrollees, regardless of the medical services actually performed. Insurance enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services. Enrollment revenue from Medicare and Medical Assistance approximates 77% of total enrollment revenue for the years ended June 30, 2013 and 2012.

Health care costs were approximately \$3,882,427 and \$3,341,996, of which \$1,054,948 and \$868,898 were eliminated in consolidation representing medical services performed by other UPMC entities for the years ended June 30, 2013 and 2012, respectively. Such costs are included in supplies, purchased services, and general expenses. These costs include estimates of payments to be made on claims reported as of the balance sheet date and estimates of health care services rendered but not reported to the Health Plans. Such estimates include the cost of services that will continue to be rendered after the balance sheet date when the Health Plans are obligated to remit payment for such services in accordance with contract provisions or regulatory requirements. Current accrued insurance reserves include approximately \$239,167 and \$209,201 at June 30, 2013 and 2012, respectively, relating to estimates of claims payable for health care services.

Unrestricted net assets required to meet statutory requirements of the Health Plans were \$273,252 and \$256,071 at June 30, 2013 and 2012, respectively.

Derivatives

UPMC uses derivative financial instruments ("derivatives") to modify the interest rates and manage risks associated with its asset allocation and outstanding debt. UPMC records derivatives as assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., 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. UPMC has entered into interest rate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

swap agreements that convert a portion of its variable rate debt to a fixed interest rate. UPMC has also entered into equity-related derivatives to manage the asset allocation in its investment portfolio. Under the equity index swap agreements, UPMC pays a fixed income-like return in order to receive an equity-like return. The notional amount of these swaps is based upon UPMC's target asset allocation. None of UPMC's swaps outstanding as of June 30, 2013 and 2012, are designated as hedging instruments and, as such, changes in fair value are recognized in investing and financing activities as investment revenue in the consolidated statements of operations and changes in net assets.

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, UPMC's credit is a 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 derivative positions in the context of UPMC's total blended cost of capital.

Net Assets

Resources are classified for reporting purposes as unrestricted, temporarily restricted, or permanently restricted, according to the absence or existence of donor-imposed restrictions. Board-designated net assets are unrestricted net assets that have been set aside by the Board for specific purposes. Temporarily restricted assets are those assets, including contributions and accumulated investment returns, whose use has been limited by donors for a specific purpose or time period. Permanently restricted net assets are those for which donors require the principal of the gifts to be maintained in perpetuity to provide a permanent source of income.

Restricted net assets include \$228,055 and \$194,829 of permanently restricted net assets held in perpetuity at June 30, 2013 and 2012, respectively. The remainder of restricted net assets is temporarily restricted and primarily represents beneficial interests in foundations that support research and other health care programs. Temporarily restricted net assets are limited by donors and the foundations to a specific time period or purpose. Temporarily restricted net assets are reclassified to unrestricted net assets and included in the consolidated statements of operations and changes in net assets as other revenue or assets released from restriction for capital purchases when the restriction is met.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses as a performance indicator. Excess of revenues over expenses includes all changes in unrestricted net assets except for contributions and distributions from foundations for the purchase of property and equipment, adjustments for pension liability, discontinued operations, and the cumulative effect of changes in accounting principles.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Reclassifications

Certain reclassifications were made to the 2012 accompanying financial statements to conform to the 2013 presentation. These reclassifications had no impact on the changes in net assets or excess of revenues over expenses previously reported.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS*. ASU2011-04, effective for annual periods beginning after December 15, 2011, offers clarification to the previously issued ASC 820 regarding fair value measurement in order to create consistent application of ASC 820 across reporting entities. UPMC has applied this guidance in the current year and retrospectively.

In July 2011, the FASB issued ASU 2011-06, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers*. ASU 2011-06 addresses the timing, recognition, and classification of the annual health insurance industry assessment fee imposed on health insurers by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, "PPACA"). The mandatory annual fee of health insurers will be imposed for each calendar year beginning on or after January 1, 2014. This update requires that the liability for the fee be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The disclosure requirements are effective for annual reporting periods beginning on or after December 31, 2013, and interim periods therein, with retrospective application required. UPMC will apply the guidance provided by ASU 2011-06 beginning on July 1, 2014. The adoption of ASU 2011-06 is not expected to materially affect UPMC's financial position or results of operations.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, that describes certain new disclosure requirements about the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. UPMC will apply the guidance provided by ASU 2011-11 beginning on July 1, 2013. The adoption of ASU 2011-11 is not expected to materially affect UPMC's financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

2. SIGNIFICANT TRANSACTIONS

In March 2013, UPMC sold its investment in dbMotion to Allscripts for \$67,803. dbMotion's interoperability solution seamlessly brings together patient data from across UPMC to improve the delivery of care. At the time of the sale, UPMC's investment in dbMotion had a book value of \$14,658 resulting in a gain on the sale of \$53,145. This amount is recorded in other revenue for the year ended June 30, 2013.

In June 2013, UPMC amended its agreement with the Pittsburgh Promise. The Pittsburgh Promise, which operates as a Type I Supporting Organization, supporting the Pittsburgh Foundation, is charged with creating and managing an endowment fund to (a) help eligible students graduating from Pittsburgh Public Schools to further their education after high school by funding certain tuition costs regardless of needs or income, and (b) enhance the growth, stability, and economic development of the city of Pittsburgh by providing a sustainable incentive for families with school-aged children to remain in, and to move into, the city of Pittsburgh to take advantage of scholarship funding for postsecondary education.

The agreement was amended to remove the annual fundraising targets and allows the Pittsburgh Promise a greater period of time to earn UPMC matching funds. As a result of the amendment, UPMC recorded a \$54,472 non-cash operating expense in its results of operations for the year ended June 30, 2013. The \$54,472 is in addition to \$4,996 of expense recognized under the previous agreement, bringing the total expense recognized in UPMC's results of operations for the year ended June 30, 2013 to \$59,468.

3. CHARITY CARE

UPMC's patient acceptance policy is based on its mission and its community service responsibilities. Accordingly, UPMC accepts patients in immediate need of care, regardless of their ability to pay. UPMC does not pursue collection of amounts determined to qualify as charity care based on established policies of UPMC. These policies define charity care as those services for which no payment is due for all or a portion of the patient's bill. For financial reporting purposes, charity care is excluded from net patient service revenue. The amount of charity care provided, determined on the basis of cost, was \$99,208 and \$86,117 for the years ended June 30, 2013 and 2012, respectively. UPMC estimates the cost of providing charity care using the ratio of average patient care cost to gross charges and then applying that ratio to the gross uncompensated charges associated with providing charity care.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

4. CASH AND INVESTMENTS

Following is a summary of cash and investments included in the consolidated balance sheets:

	June 30	
	2013	2012
Internally designated:		
Funded depreciation	\$ 9,461	\$ 12,113
Employee benefit and workers' compensation self-insurance programs	63,183	52,070
Professional and general liability insurance program	366,263	324,270
Health insurance programs	543,063	490,904
	981,970	879,357
Externally designated:		
Trusteed assets for capital and debt service payments	4,515	14,391
Donor-restricted assets	239,085	228,520
	243,600	242,911
Other long-term investments	2,776,061	2,603,172
Board-designated, restricted, trustee, and other investments	4,001,631	3,725,440
Cash and cash equivalents	203,118	245,824
	\$ 4,204,749	\$ 3,971,264

Following is a summary of the composition of cash and investments. The table below shows all of UPMC's investments, including nonalternative investments measured at fair value and alternative investments using either the cost or equity method of accounting.

	June 30	
	2013	2012
Cash and cash equivalents	\$ 203,118	\$ 245,824
Nonalternative investments:		
Fixed income	1,194,299	1,020,926
Domestic equity	293,807	279,506
International equity	597,221	547,586
Public real estate	43,618	39,764
Long/short equity	102,080	60,892
Absolute return	30,867	-
Commodities	32,315	36,310
	2,294,207	1,984,984
Alternative investments:		
Long/short equity	403,194	368,497
Absolute return	251,320	279,103
Private equity	757,150	824,914
Private real estate	163,187	155,670
Natural resources	132,573	112,272
	1,707,424	1,740,456
	\$ 4,204,749	\$ 3,971,264

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Investments are primarily maintained in MTF and administered using a bank as trustee. As of June 30, 2013, UPMC utilized 168 external investment managers, including 28 traditional managers, 26 hedge fund managers, and 114 private equity managers. The largest allocation to any alternative investment fund is \$51,828. Certain managers use various equity and interest rate derivatives. These instruments are subject to various risks similar to nonderivative financial instruments, including market, credit, liquidity, operational, and foreign exchange risk.

As of June 30, 2013 and 2012, respectively, UPMC had total investments recorded at cost of \$901,326 and \$964,085. These investments include private equity limited partnerships recorded at cost, as well as assets recorded as other assets in the consolidated balance sheets.

Investment return from cash and investments is comprised of the following for the years ended June 30, 2013 and 2012, respectively:

	Year Ended June 30	
	2013	2012
Interest income	\$ 32,384	\$ 31,043
Dividend income	24,820	28,549
Net realized gains on sales of securities	253,713	95,413
	310,917	155,005
Unrealized investment gains (losses)	62,939	(118,116)
Impairment losses on limited partnerships	(5,457)	(7,658)
Derivative contracts mark to market	9,101	(12,454)
	66,583	(138,228)
Total investment gain	377,500	16,777
Traditional investment manager and trustee fees	(25,049)	(23,236)
Investment revenue (loss)	\$ 352,451	\$ (6,459)

In managing the UPMC investment strategy, an important consideration is to ensure sufficient liquidity. While UPMC's relationships with its external investment managers vary in terms of exit provisions, a percentage of the agreements allow ready access to underlying assets which are generally liquid and marketable. Investment liquidity as of June 30, 2013, is shown below:

Liquidity Availability	Cash and Cash Equivalents	Nonalternative Investments	Alternative Investments	Total
Within three days	\$ 203,118	\$ 2,193,910	\$ -	\$ 2,397,028
Within 30 days	-	100,297	33,072	133,369
Within 60 days	-	-	74,060	74,060
Within 90 days	-	-	240,272	240,272
More than 90 days	-	-	1,360,020	1,360,020
Total	\$ 203,118	\$ 2,294,207	\$ 1,707,424	\$ 4,204,749

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

5. CREDIT ARRANGEMENTS

UPMC has a revolving line and letter of credit facility (the "Revolving Facility") with an available line of \$350,000 and an option to increase the aggregate commitment by \$50,000 for a total available line of \$400,000. The Revolving Facility expires on June 15, 2016. The Revolving Facility is used to manage cash flow during the year and to provide for a consolidated method of issuing various letters of credit for certain business units. A note to secure UPMC's repayment obligation with respect to the Revolving Facility was issued under the 2007 Master Trust Indenture ("2007 UPMC MTI") and is secured by a pledge of a security interest in the gross revenues of UPMC parent corporation, UPMC Presbyterian Shadyside, Magee-Women's Hospital of UPMC, UPMC Passavant and UPMC St. Margaret as members of the obligated group under the 2007 UPMC MTI.

Advances may be variable rate based on the prime rate or the Federal Funds effective rates, or advances may be fixed on the date of the advance based on the British Bankers' Association Interest Settlement Rate and the reserve requirement on Eurocurrency liabilities. No borrowings were outstanding under the Revolving Facility as of June 30, 2013 and 2012.

As of June 30, 2013, UPMC has issued \$76,476 of letters of credit under the Revolving Facility. These letters of credit predominantly support the capital requirements of certain insurance subsidiaries. As of June 30, 2013, there was \$273,524 available to borrow under the Revolving Facility.

In addition to the Revolving Facility described above, UPMC has a revolving credit facility with an available line of €18,000 (\$23,449) that is used to support the working capital needs of UPMC Beacon. This line was fully drawn at June 30, 2013.

6. LONG-TERM OBLIGATIONS AND DERIVATIVE INSTRUMENTS

Long-term obligations consist of the following:

	June 30	
	2013	2012
Fixed rate revenue bonds	\$ 2,241,977	\$ 2,006,834
Variable rate revenue bonds	673,195	797,939
Capital leases and other	278,153	320,056
Par value of long-term obligations	3,193,325	3,124,829
Net premium and other	66,544	45,685
	3,259,869	3,170,514
Less current portion	(163,859)	(150,250)
Total long-term obligations	\$ 3,096,010	\$ 3,020,264

Revenue instruments outstanding represent funds borrowed by the UPMC parent corporation and various subsidiaries pursuant to loan agreements and lease and sublease financing arrangements with governmental authorities. The bond proceeds were used for the purchase, construction, and renovation of hospital facilities, certain buildings and equipment, as well as the extinguishment of debt.

The fixed rate revenue instruments bear interest at fixed coupon rates ranging from 0.85% to 6.00% in 2013 and from 2.00% to 6.00% in 2012. The average interest cost for the variable rate instruments was 0.98% and 0.87% during fiscal years 2013 and 2012, respectively. Revenue instruments have varying principal payments and final maturities from 2015 through 2042. Certain revenue bonds are secured by bond insurance (\$111,667 and \$229,721 in 2013 and 2012, respectively). Reimbursement agreements (\$119,110 and \$202,103 in 2013 and 2012, respectively) provide loans to UPMC in the amount necessary to purchase the variable rate demand revenue bonds if not remarketed. These revenue bonds are expected to be refunded or remarketed and the reimbursement agreements terminated during fiscal 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

UPMC completed its efforts to standardize its bond covenants to be consistent with those contained in the 2007 UPMC MTI by defeasing a 1995 Master Indenture on August 16, 2012. Revenue instruments in the aggregate amount of debt outstanding of \$2,838,594 and \$2,773,128 as of June 30, 2013 and 2012, respectively, are issued under the MTI. The instruments are secured by a pledge of and security interest in gross revenues of the MTI obligated group. Certain amounts borrowed under the MTI are loaned to certain subsidiary corporations pursuant to loan and contribution agreements and require the transfer of subsidiary funds to the parent corporation in the event of failure to satisfy the UPMC parent corporation liquidity covenant.

The various indebtedness agreements contain restrictive covenants, the most significant of which are the maintenance of minimum debt service coverage and liquidity ratios, and restrictions as to the incurrence of additional indebtedness and transfers of assets. UPMC was in compliance with such covenants as of June 30, 2013 and 2012.

Aggregate maturities of long-term obligations for the next five years, assuming remarketing of UPMC's variable rate debt, are as follows:

2014	\$ 163,859
2015	306,342
2016	199,884
2017	123,834
2018	283,610

Interest paid, net of amounts capitalized, on all obligations was \$135,042 and \$133,442 during the years ended June 30, 2013 and 2012, respectively.

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

During the term of these agreements, the floating to fixed rate swap converts variable rate debt to a fixed rate and the basis swaps convert the interest rate on underlying LIBOR-based bonds to the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA Index").

Under the basis swaps, UPMC pays a rate equal to the SIFMA Index, an index of seven-day, high-grade, tax-exempt variable rate demand obligations. The SIFMA Index rates ranged from 0.06% to 0.23% (weighted average rate of 0.14%) in 2013 and from 0.06% to 0.26% (weighted average rate of 0.15%) in 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

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

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
				June 30, 2013	June 30, 2012
Floating to fixed	2025	3.6%	68% one-month LIBOR	\$ 128,095	\$ 134,735
Basis	2021	SIFMA Index	67% three-month LIBOR plus .2077%	52,155	53,905
Basis	2037	SIFMA Index	67% three-month LIBOR plus .3217%	46,095	46,095
				\$ 226,345	\$ 234,735

After giving effect to the above derivative transactions, UPMC's variable rate debt was approximately 17% and 21% of the total debt outstanding as of June 30, 2013 and 2012, respectively.

UPMC has also entered into equity-related derivative instruments to manage the asset allocation in its investment portfolio. Under the equity index swap agreements UPMC pays a fixed income-like return in order to receive an equity-like return. The notional amount of these swaps is based upon UPMC's target asset allocation.

The following table summarizes UPMC's equity swap agreements:

Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
			June 30, 2013	June 30, 2012
2014	Three-month LIBOR plus .1800%	MSCI EAFE Daily Total Return ¹	100,002	-
2014	Three-month LIBOR plus .4000%	S&P 500 Total Return	75,000	-
2014	Three-month LIBOR plus .1000%	MSCI All Country World Daily Total Return ²	75,000	-
2013	Three-month LIBOR plus .1400%	S&P 500 Total Return	100,000	-
2013	Three-month LIBOR minus .2000%	MSCI EAFE Daily Total Return ¹	-	100,001
2013	Three-month LIBOR	S&P 500 Total Return	-	74,999
2013	Three-month LIBOR minus .1400%	MSCI All Country World Daily Total Return ²	-	75,019
2012	Three-month LIBOR	S&P 500 Total Return	-	100,000
			\$ 350,002	\$ 350,019

¹ The MSCI EAFE Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.

² The MSCI All Country World Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance of developed and emerging markets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The fair value of UPMC's derivative instruments at June 30, 2013 and 2012, was classified in the consolidated balance sheets as follows:

	June 30, 2013	June 30, 2012
Other assets	\$ 4,178	\$ 1,257
Long-term obligations	(21,615)	(27,861)
	\$ (17,437)	\$ (26,604)

The effects of changes in the fair value of the derivative instruments on the consolidated statements of operations and changes in net assets for the years ended June 30, 2013 and 2012, are as follows:

Type of Derivative	Classification of Unrealized Gain (Loss) in Excess of Revenues Over Expenses	Amount of Unrealized Gain (Loss) in Excess of Revenues Over Expenses	
		2013	2012
Interest rate contracts	Investment revenue (loss)	\$ 6,917	\$ (7,540)
Equity index contracts	Investment revenue (loss)	2,250	(4,688)
		\$ 9,167	\$ (12,228)

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. The aggregate fair value of all derivatives with credit-risk-related contingent features that are in a liability position at June 30, 2013 and 2012, is \$18,090 and \$25,676, respectively, for which UPMC has posted collateral of \$0 and \$400, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these derivatives were triggered to the fullest extent on June 30, 2013, UPMC would be required to post an additional \$19,550 of collateral to its counterparties. Pursuant to master netting arrangements, UPMC offsets the fair value of amounts recognized for derivatives, including the right to reclaim or obligation to return cash collateral from/to counterparties.

7. FAIR VALUE MEASUREMENTS

As of June 30, 2013, 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 derivatives. UPMC's alternative investments are measured using either the cost or 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, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The following tables represent UPMC's fair value hierarchy for its financial assets (cash and investments) and liabilities measured at fair value on a recurring basis as of June 30, 2013 and 2012. 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 and money market securities, which are included within fixed income and long/short equity. The net asset value has been derived using quoted market prices for the underlying securities.

FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2013

	Level 1	Level 2	Level 3	Total Carrying Amount
ASSETS				
Cash and cash equivalents	\$ 198,970	\$ 4,148	\$ -	\$ 203,118
Fixed income	335,976	858,323	-	1,194,299
Domestic equity	285,182	8,625	-	293,807
International equity	496,652	100,569	-	597,221
Public real estate	43,618	-	-	43,618
Commodities	32,315	-	-	32,315
Long/short equity	49,144	52,936	-	102,080
Absolute return	-	30,867	-	30,867
Derivative instruments	-	4,178	-	4,178
Total assets	\$ 1,441,857	\$ 1,059,646	\$ -	\$ 2,501,503
LIABILITIES				
Derivative instruments	-	21,615	-	21,615
Total liabilities	\$ -	\$ 21,615	\$ -	\$ 21,615

FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2012

	Level 1	Level 2	Level 3	Total Carrying Amount
ASSETS				
Cash and cash equivalents	\$ 207,730	\$ 38,094	\$ -	\$ 245,824
Fixed income	321,123	699,803	-	1,020,926
Domestic equity	271,652	7,854	-	279,506
International equity	447,925	99,661	-	547,586
Public real estate	39,764	-	-	39,764
Commodities	36,310	-	-	36,310
Long/short equity	33,997	26,895	-	60,892
Derivative instruments	-	1,257	-	1,257
Total assets	\$ 1,358,501	\$ 873,564	\$ -	\$ 2,232,065
LIABILITIES				
Derivative instruments	-	27,861	-	27,861
Total liabilities	\$ -	\$ 27,861	\$ -	\$ 27,861

In 2012, the fair value of certain money market securities was reported as Level 1 securities. The June 30, 2012 amounts have been adjusted to reflect money market securities as Level 2. Total Level 1 securities as previously reported and as revised were \$1,524,933 and \$1,358,501, respectively, and total Level 2 securities as previously reported and as revised were \$707,132 and \$873,564, respectively. The revision of this disclosure is not considered material to the consolidated financial statements of UPMC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

8. PENSION PLANS

UPMC and its subsidiaries maintain defined benefit pension plans (the "Plans"), defined contribution plans, and nonqualified pension plans that cover substantially all of UPMC's employees. Under the defined contribution plans, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plans. Employer contributions to the nonqualified pension plans are based on a percentage of salary or contractual arrangements. Total expense relating to the aforementioned pension plans was \$140,125 and \$134,661 for the years ended June 30, 2013 and 2012, respectively. Total expense related to the defined contribution plans and nonqualified plans was \$69,778 and \$67,075 for the years ended June 30, 2013 and 2012, respectively.

Benefits under the Plans vary and are generally based upon the employee's earnings and years of participation. It is UPMC's policy to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and the Pension Protection Act of 2006. UPMC's policy is to contribute amounts sufficient to, among other things, avoid Pension Benefit Guaranty Corporation variable premiums. Contributions made to the Plans were \$137,001 and \$69,090 for the years ended June 30, 2013 and 2012, respectively.

The table below sets forth the accumulated benefit obligation, the change in the projected benefit obligation, and the change in the assets of the Plans. The table also reflects the funded status of the Plans as well as recognized and unrecognized amounts in the consolidated balance sheets.

	2013	June 30 2012
Accumulated benefit obligation	\$ 1,255,464	\$ 1,207,824
CHANGE IN PROJECTED BENEFIT OBLIGATION		
Projected benefit obligation at beginning of year	\$ 1,239,815	\$ 1,149,267
Service cost	71,623	64,842
Interest cost	50,574	58,520
Actuarial loss	4,044	27,940
Plan settlements	(4,167)	-
Benefits paid	(71,162)	(60,754)
Projected benefit obligation at end of year	1,290,727	1,239,815
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	999,345	994,225
Actual return on plan assets	98,901	(3,216)
Employer contributions	137,001	69,090
Plan settlements	(4,167)	-
Benefits paid	(71,162)	(60,754)
Fair value of plan assets at end of year	1,159,918	999,345
Accrued pension liability	\$ 130,809	\$ 240,470

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Included in unrestricted net assets at June 30, 2013 and 2012, respectively, are the following amounts that have not yet been recognized in net periodic pension cost:

	2013	June 30 2012
Unrecognized prior service credit	\$ 652	\$ 1,603
Unrecognized net actuarial loss	(350,352)	(394,316)
Unrecognized transition asset	9	15
	\$ (349,691)	\$ (392,698)

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2013 and 2012 include:

	2013	June 30 2012
Current year net actuarial gain (loss)	\$ 6,279	\$ (110,806)
Amortization of actuarial gain	37,685	26,036
Amortization of net prior service (cost) credit	(957)	2,098
	\$ 43,007	\$ (86,868)

No plan assets are expected to be returned to UPMC during the year ending June 30, 2014.

The components of net periodic pension cost for the Plans were as follows:

	Year Ended June 30	
	2013	2012
Service cost	\$ 71,623	\$ 64,844
Interest cost	50,574	58,520
Expected return on plan assets	(88,579)	(79,652)
Recognized net actuarial loss	36,393	26,036
Settlement charge	1,287	-
Amortization of prior service credit	(951)	(2,096)
Net periodic pension cost	\$ 70,347	\$ 67,652

The actuarial assumptions used to determine the benefit obligations and net periodic pension cost for the Plans are as follows:

	June 30	
	2013	2012
Discount rates:		
Used for benefit obligations	4.72%	4.32%
Used for net periodic pension cost	4.32%	5.35%
Expected rate of compensation increase:		
Used for benefit obligations	Age-graded	Age-graded
Used for net periodic pension cost	Age-graded	Age-graded
Expected long-term rate of return on plan assets	8.00%	8.00%
Interest crediting rate	3.72%	3.32%

The change in discount rate from 4.32% to 4.72% and the change in interest crediting rate from 3.32% to 3.72% decreased the projected benefit obligation as of June 30, 2013 by \$19,254.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years ending June 30:

2014	\$ 111,989
2015	100,337
2016	104,733
2017	109,918
2018	115,285
2019-2023	612,372

UPMC employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets subject to accepting a prudent level of risk. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. The pension portfolio contains a diversified blend of equity, fixed-income, and alternative investments. Equity investments are diversified across United States and non-United States corporate stocks, as well as growth, value, and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to enhance long-term returns while improving portfolio diversification. UPMC's external investment managers may use derivatives to gain market exposure in an efficient and timely manner. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

As of June 30, 2013, UPMC employed 108 external investment managers to handle the investment of the assets in the pension portfolio. Of these, 17 managers manage equity investments, 5 manage fixed income investments, and 86 managers oversee alternative investment strategies. The largest single fund allocation to any alternative investment manager is \$14,350.

The following is a summary of the pension plan asset allocations at June 30, 2013 and 2012:

	2013	2012	Target
Nonalternative investments:			
Fixed income	11.3%	11.0%	10.0%
Domestic equity	15.7%	15.0%	15.0%
International equity	22.9%	22.0%	25.0%
Total nonalternative investments	49.9%	48.0%	50.0%
Real assets:			
Real estate	4.7%	4.9%	4.0%
Income opportunities	0.1%	0.1%	2.0%
Natural resources	3.1%	2.9%	4.0%
Total real assets	7.9%	7.9%	10.0%
Alternative investments:			
Long/short equity	11.7%	10.7%	15.0%
Absolute return	8.9%	9.0%	10.0%
Private equity	21.6%	24.4%	15.0%
Total alternative investments	42.2%	44.1%	40.0%
Total	100.0%	100.0%	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

All of the Plans' assets are measured at fair value, including its alternative investments. The same levels of the fair value hierarchy as described in Note 7 are used to categorize the Plans' assets. Corporate debt instruments and fixed income/bonds are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. The fair value of common/collective trust funds is determined by the issuer sponsoring such funds by dividing the fund's net assets at fair value by its units outstanding at the valuation dates. Partnership interests are valued using net asset value ("NAV"), which is based on the unit values of the interests as determined by the issuer sponsoring such interests dividing the fund's net assets at fair value by its units outstanding at the valuation dates.

The fair values of the Plans' assets at June 30, 2013, by asset category and by the level of inputs used to determine fair value, were as follows:

	Level 1	Level 2	Level 3	Total
ASSETS				
Cash	\$ 535	\$ -	\$ -	\$ 535
Equity securities:				
Domestic equity	179,337	-	-	179,337
International equity	212,299	-	-	212,299
U.S. REITS	18,353	-	-	18,353
Fixed income:				
Government securities	1,212	-	-	1,212
Corporate debt instruments	-	21,505	-	21,505
Common collective trusts	96,372	49,515	-	145,887
Private equity and hedge partnerships:				
Private real estate	-	-	50,380	50,380
Private natural resources	-	-	36,466	36,466
Absolute return hedge funds	-	19,978	83,054	103,032
Long/short hedge funds	13,180	14,190	108,088	135,458
Private equity	-	-	254,426	254,426
Net receivables	1,028	-	-	1,028
Plans' assets at fair value	\$ 522,316	\$ 105,188	\$ 532,414	\$ 1,159,918

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The fair values of the Plans' assets at June 30, 2012, by asset category and by the level of inputs used to determine fair value, were as follows:

	Level 1	Level 2	Level 3	Total
ASSETS				
Cash	\$ 326	\$ -	\$ -	\$ 326
Equity securities:				
Domestic equity	172,434	-	-	172,434
International equity	168,540	-	-	168,540
U.S. REITS	17,017	-	-	17,017
Fixed income:				
Government securities	6,341	-	-	6,341
Corporate debt instruments	-	9,210	-	9,210
Common collective trusts	-	104,881	-	104,881
Private equity and hedge partnerships:				
Private real estate	-	-	47,557	47,557
Private natural resources	-	-	29,316	29,316
Absolute return hedge funds	-	-	77,623	77,623
Long/short hedge funds	8,420	6,661	104,548	119,629
Private equity	-	-	246,002	246,002
Net receivables	469	-	-	469
Plans' assets at fair value	\$ 373,547	\$ 120,752	\$ 505,046	\$ 999,345

Changes in the fair value of the Plans' Level 3 assets for the year ended June 30, 2013, were as follows:

	Level 3
Balance, June 30, 2012	\$ 505,046
Actual return on plan assets:	
Related to assets still held at the reporting date	22,681
Related to assets sold during the period	17,019
Purchases, sales, issuances and settlements (net)	(12,332)
Balance, June 30, 2013	\$ 532,414

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9. PROFESSIONAL AND GENERAL LIABILITY INSURANCE

UPMC is insured for professional and general liability losses through wholly owned, multiprovider insurance companies (“Captives”) as well as commercial coverage. The Captives provide primary and excess professional liability coverage to UPMC subsidiaries, employed physicians of UPMC, and other entities not included in the consolidated financial statements.

Certain insurance agreements have retrospective clauses that permit additional premiums or refunds to be made based on actual experience. The reserve for professional and general liability indemnity losses and loss adjustment expenses is determined using individual case-based evaluations and statistical analyses and represents an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for professional and general liability losses and loss adjustment expenses are reasonable. The estimates are reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations. Reserves for professional and general liability losses and loss adjustment expenses of approximately \$303,044 and \$272,976 discounted at 0.75% and 1.25% were recorded as of June 30, 2013 and 2012, respectively. The effect of the change in discount rate from 1.25% to 0.75% increased the reserves for professional and general liability losses by approximately \$3,600. At June 30, 2013 and 2012, respectively, \$61,933 and \$60,209 of the loss reserves are included in current accrued insurance reserves and \$241,111 and \$212,767 are reported as accrued long-term insurance reserves.

The Medical Care Availability and Reduction of Error (“MCARE”) Act was enacted by the legislature of the Commonwealth of Pennsylvania (“Commonwealth”) in 2002. This Act created the MCARE Fund, which replaced The Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the “Medical CAT Fund”), as the agency for the Commonwealth to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by UPMC and other health care providers practicing in the Commonwealth.

The MCARE Fund is funded on a “pay as you go basis” and assesses health care providers based on a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth agency) for basic coverage. The MCARE Act of 2002 provides for a further reduction to the current MCARE coverage of \$500 per occurrence to \$250 per occurrence and the eventual phaseout of the MCARE Fund, subject to the approval of the PA Insurance Commissioner. To date, the PA Insurance Commissioner has deferred the change in coverage and eventual phaseout of the MCARE Fund to future years.

10. WORKERS' COMPENSATION SELF-INSURANCE

UPMC is self-insured for workers' compensation for losses up to a maximum limit of \$1,000 per occurrence, with the exception of a few subsidiaries that are commercially insured with statutory limits. Losses incurred over this limit are covered by a supplemental catastrophic policy up to specified limits with a commercial insurer. Estimated accruals for workers' compensation were \$24,247 and \$25,109 discounted at 4.00% as of June 30, 2013 and 2012.

11. RELATED-PARTY TRANSACTIONS

UPMC purchases and sells certain services from and to the University. The most significant payment to the University is for physician services whereby the University, acting as a common paymaster, invoices UPMC for the clinical services rendered by certain faculty and medical residents. Payments to the University related to physician services amounted to \$149,132 and \$144,265 for the years ended June 30, 2013 and 2012, respectively. UPMC provides direct financial support to the University to sustain the research and academic medical enterprise of the University. Payments to the University related to research and academic support amounted to \$97,098 and \$94,255 for the years ended June 30, 2013 and 2012, respectively.

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UPMC has various facility rental agreements with the University. UPMC received rent income of \$23,637 and \$23,686 and incurred rent expense of \$10,136 and \$10,132 related to rental arrangements with the University for the years ended June 30, 2013 and 2012, respectively, which are also included in Note 12.

The University subcontracts with UPMC to perform research activity. Payments from the University related to research activity were \$37,237 and \$37,766 for the years ended June 30, 2013 and 2012, respectively.

UPMC has equity investments in entities that sell and purchase various patient care-related services to and from UPMC. Payments to equity investment entities were \$63,038 and \$49,580 for the years ended June 30, 2013 and 2012, respectively. Revenues from equity investment entities were \$77,624 and \$58,680 for the years ended June 30, 2013 and 2012, respectively.

Receivables and payables are settled with affiliated entities in the normal course of business. Other receivables include \$12,694 and \$18,099 as of June 30, 2013 and 2012, respectively, relating to amounts due from affiliates in connection with these transactions.

12. OPERATING LEASES AND OTHER LONG-TERM AGREEMENTS

UPMC has entered into certain long-term agreements with respect to facilities, equipment, and services with affiliated and other entities. The terms of the agreements generally range from 1 to 25 years with renewal options up to 15 years. Total expense under these agreements was approximately \$113,047 and \$115,971 for the years ended June 30, 2013 and 2012, respectively, for all long-term agreements.

Future payments under noncancelable long-term agreements for the next five years and thereafter are as follows:

2014	\$	98,278
2015		80,132
2016		64,122
2017		43,397
2018		35,623
Thereafter		269,760

Approximately 3.4% of total future payments are subject to adjustment based upon inflation or mutual negotiations. Approximately 6.1% of these payments are due to the University.

13. INCOME TAXES

UPMC calculates income taxes using the balance sheet method for its taxable subsidiaries. Taxable income differs from pretax book income principally due to certain income and deductions for tax purposes being recorded in the financial statements in different periods. Deferred income tax assets and liabilities are recorded for the tax effect of these differences using enacted tax rates for the years in which the differences are expected to reverse. UPMC assesses the realization of deferred tax assets and the need for a valuation allowance to reduce those assets to their net realizable value based on future operations, reversal of existing temporary differences, carryforward and carryback periods for credits and net operating losses, and potential tax planning strategies that may exist.

Tax benefits are recognized when it is more likely than not that a tax position will be sustained upon examination by the tax authorities based on the technical merits of the position. Such tax positions are measured as the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the tax authorities assuming full knowledge of the position and all relevant facts. As of June 30, 2013, UPMC does not have any unrecorded tax benefits.

As of June 30, 2013, the for-profit entities of UPMC had gross federal net operating loss ("NOL") carryforwards of \$332,361 (expiring in years 2018 through 2033) and gross state NOL carryforwards of \$185,927 (expiring in years 2019 through 2033) that

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are available to offset future taxable income. Utilization of the state NOL carryforwards in any one year is limited to the greater of \$3,000 or 20% of taxable income on an annual basis per company. During the year ended June 30, 2013, UPMC realized tax benefits of \$1,001 from the use of NOL carryforwards. Net deferred tax assets of \$133,412, primarily related to NOL carryforwards, have a valuation allowance recorded against them of \$127,854 due to the uncertainty of realizing these benefits in the future.

The following table presents deferred tax assets as of June 30:

	2013	2012
Deferred tax assets:		
Federal NOL	\$ 113,003	\$ 95,475
Accrued benefits	8,510	7,851
Alternative minimum tax credit carryover and other	11,899	20,770
	133,412	124,096
Less valuation allowance	(127,854)	(118,538)
	\$ 5,558	\$ 5,558

14. FUNCTIONAL EXPENSES

UPMC provides general health care services primarily to residents within its geographic location and supports research and education programs. For the years ended June 30, 2013 and 2012, expenses related to providing these services were as follows:

	2013	2012
Hospital health care services, including health insurance costs	\$ 7,364,966	\$ 6,984,597
Other health care services	1,341,613	1,225,599
Academic and research activities	444,712	398,419
Administrative support	1,241,842	1,033,504
	\$ 10,393,133	\$ 9,642,119

15. COMMITMENTS

In December 2000, UPMC entered into a long-term agreement with a software vendor in connection with a system-wide technology initiative to improve the quality of patient care through the development of a real-time patient electronic health record providing for clinical documentation and order entry. Under the agreement, UPMC will receive the right to the license, installation, upgrade, and maintenance related to all current fixed fee software through December 2019. As of June 30, 2013, there were future purchase commitments of \$19,300 related to software upgrades and maintenance payable in annual installments through December 2019.

In April 2005, UPMC entered into an eight-year, joint development agreement with IBM to transform UPMC's information technology infrastructure and to create new technology solutions. UPMC's technology infrastructure was reengineered to an on-demand computing model that is geared toward innovation, yet adaptable and flexible to meet ongoing business needs and growth. In return for these products and services, UPMC contractually committed \$350,010 payable over thirteen years, roughly in equal monthly installments. As of June 30, 2013, \$29,539 of this commitment remained. In June 2012, UPMC executed a four-year agreement beginning July 1, 2012 under which UPMC will acquire a broad array of software and associated maintenance totaling approximately \$50,475. Additionally, UPMC executed an agreement for the acquisition of hardware used within its technology infrastructure, which effectively extends the existing agreement through June 30, 2016. UPMC's commitment to purchase hardware under the new agreement totals \$70,502 and is payable through June 30, 2016.

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16. 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 the results of operations or financial position of UPMC. Management believes that these matters will be resolved without material adverse effect on UPMC's results of operations or financial position. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In April 2009, a lawsuit was filed by West Penn Allegheny Health System ("WPAHS") against UPMC and Highmark in the United States District Court for the Western District of Pennsylvania (the "WPAHS matter"). WPAHS alleged that UPMC and Highmark violated the Sherman Antitrust Act and that UPMC tortiously interfered with WPAHS' existing and prospective business relations. WPAHS sought equitable relief and unspecified compensatory, treble and punitive damages. In October 2011, WPAHS voluntarily dismissed all of its claims against Highmark and moved for leave to file a Second Amended Complaint (the "SAC"). In particular, WPAHS sought leave to drop its claims that a UPMC Highmark conspiracy caused its decline and to focus all of its remaining claims on a theory that UPMC's allegedly "predatory tactics" were solely responsible for its decline. Although UPMC opposed WPAHS' motion for leave, in April 2012, the Court granted WPAHS' motion to file the SAC. In May 2012, UPMC and Highmark entered into a Mediated Agreement, a material term of which is that once Highmark acquires control of WPAHS, Highmark will dismiss WPAHS' antitrust claims against UPMC with prejudice. UPMC answered the SAC, denying that it had any liability for the claims asserted therein. In addition, UPMC filed a counterclaim against WPAHS, alleging that it had conspired with Highmark to allow Highmark to prevent the entry and expansion of other national insurers in the market and to impair the UPMC Health Plan's viability as a potential insurance competitor. UPMC also filed a companion lawsuit alleging similar allegations and claims against Highmark and WPAHS (the "UPMC matter"). In June 2012, UPMC filed an Amended Answer and Amended Counterclaim and WPAHS moved to dismiss UPMC's counterclaim in the WPAHS matter. In October 2012, UPMC amended its Counterclaims against WPAHS and WPAHS moved to dismiss those counterclaims. The Court entertained oral argument on WPAHS' motion to dismiss on January 4, 2013. On June 27, 2013, UPMC moved to enforce the Mediated Agreement's provision obligating Highmark to compel WPAHS to dismiss the lawsuit. Highmark has opposed that motion. The parties await a ruling from the Court on that motion. UPMC continues to believe that WPAHS' allegations have no merit and expects that the matter will be resolved without any material adverse effect on UPMC's results of operations or financial position. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In December 2010, a proposed class action was filed in United States District Court for the Western District of Pennsylvania by Royal Mile Company, Inc., and certain related entities and persons against UPMC and Highmark. In that action the plaintiffs alleged that UPMC and Highmark had conspired to allow Highmark to charge excessive, above-market premiums for health insurance. The complaint closely tracks the allegations made by WPAHS in its lawsuit (described above). The action has been designated as "related" to the WPAHS lawsuit and has been assigned to the same District Court Judge. Although the case had been stayed pending the disposition of petitions for certiorari being filed in the WPAHS lawsuit, the District Court Judge lifted the stay following the denial of the petitions for certiorari. The plaintiffs filed an Amended Complaint in August 2012, which included two additional antitrust counts against UPMC based on its alleged conspiracy with Highmark. In September 2012, both UPMC and Highmark filed motions to dismiss plaintiffs' Amended Complaint. The parties await a hearing and ruling on UPMC's and Highmark's motions to dismiss plaintiffs' claims. In January 2013, the plaintiffs' moved to withdraw their proposed settlement with Highmark, contending that Highmark misled them about the value of the settlement. Although Highmark originally opposed the plaintiffs' motion to withdraw the settlement, Highmark filed a notice in May 2013 that it no longer opposes that motion. Discovery on the claims continues. UPMC continues to believe that the plaintiffs' allegations have no merit and expects that the matter will be resolved without any material adverse effect on UPMC's results of operations or financial position. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

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In March and April 2009, several related class action lawsuits were filed against UPMC and certain of its affiliates in the Federal District Court for the Western District of Pennsylvania ("District Court") and the Court of Common Pleas for Allegheny County, Pennsylvania. The Federal District Court cases allege violations of The Fair Labor Standards Act ("FLSA") on the basis that certain employees were not paid for all hours that they worked and were not properly paid overtime and, further, that these actions also violated the Employee Retirement Income Security Act ("ERISA") and the Racketeer Influenced and Corrupt Organizations Act ("RICO"). The state court actions allege violations of the Pennsylvania Minimum Wage Act, The Wage Payment and Collection Act and common law on the same factual basis noted above. The lawsuits seek recovery of alleged unpaid wages and benefits and other monetary damages and costs. In 2012, the Court in two of the federal class action lawsuits entered an Order granting UPMC's motion to decertify the collective action that had been conditionally entered at an earlier date. The Plaintiff's filed an unopposed Motion for Voluntary Dismissal with Prejudice for the purposes of appeal in both cases. The District Court signed a generic 'Order of Dismissal with Prejudice' in both cases which includes the named Plaintiffs. One case is now on appeal to Third Circuit, and one case is pending appeal, on the issue of the denial of the class certification. UPMC is currently evaluating the effect of the lawsuits on UPMC's results of operations or financial position. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In November 2010, the DOJ opened an investigation into whether or not certain hospitals nationwide submitted claims to Medicare for payment related to the implantation of implantable cardioverter defibrillators that were excluded from Medicare coverage. UPMC is in the process of reviewing these claims related to this investigation. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In January 2012, UPMC Hamot was served with a Complaint in Pennsylvania federal court naming it as a defendant in a qui tam action, along with a private physician practice. UPMC Hamot moved to dismiss the Complaint in April 2012. The Relator opposed UPMC Hamot's motion to dismiss in June 2012. In November 2012, the Court granted UPMC Hamot's motion in part and denied it in part. The Relator filed an Amended Complaint. UPMC Hamot moved to dismiss the Amended Complaint in January 2013. In July 2013, the Court denied UPMC Hamot's motion to dismiss. UPMC Hamot's deadline to answer the Complaint is September 18, 2013. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In July 2012, a class action suit was filed against UPMC and other defendants in the Allegheny County Court of Common Pleas alleging Pennsylvania wage and hour violations. The Complaint alleges that RN staff members with a BSN were not assessed the pay differential and seeks damages for that differential as well as liquidated damages and interest. UPMC filed preliminary objections which were sustained in part and overruled in part resulting in the dismissal of all named defendants except UPMC. UPMC also filed an Answer with new matter, denying all material allegations. Discovery is ongoing. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In September 2012, a suit was filed against UPMC, Maxim Staffing Solutions, Inc. ("Maxim") and Medical Solutions, LLC, in the Allegheny County Court of Common Pleas ("Common Pleas Court") alleging the defendants acted negligently in failing to prevent a Maxim employee, staffed at UPMC between March 2008 and May 2008, from spreading the Hepatitis C virus ("HCV"). UPMC then notified the Pennsylvania Attorney General that this employee was terminated from UPMC for violations related to attempts to switch syringes. Additionally, in September 2012, a Pennsylvania resident filed a putative class action suit against UPMC and Maxim in the Common Pleas Court alleging that the defendants negligently failed to properly hire, investigate and retain and/or supervise the employee. This case, which does not allege contraction of HCV, brought the action on behalf of a putative class consisting of persons who "were potentially and unwittingly exposed to the blood borne illnesses" of the employee while he worked at UPMC. In October 2012, others who have allegedly contracted HCV filed a putative class action against UPMC and Maxim in Common Pleas Court alleging that UPMC acted negligently in failing to prevent approximately 2,000 former patients

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and their spouses and significant others from being exposed to HCV. These two class actions have been limited to only physical injury from the needlestick for HCV testing. In December 2012, a Kansas husband and wife and other plaintiffs filed three putative actions in Common Pleas Court against UPMC, Maxim and a third defendant also alleging that UPMC acted negligently in failing to prevent former patients and their spouses and significant others from being exposed to HCV. UPMC has filed preliminary objections to all of these actions. These cases have been dismissed, but the plaintiffs filed a motion to reconsider. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In March 2013, the City of Pittsburgh filed an action against UPMC in the Allegheny County Court of Common Pleas ("Common Pleas Court") seeking a declaration that UPMC is not an "institution of purely public charity" under Pennsylvania law and, therefore, is ineligible for a charitable exemption under the City's payroll tax ordinance. The City also seeks an order requiring UPMC to pay payroll taxes dating back to March 2007. In April 2013, UPMC removed the City's action to federal court. That same month, UPMC moved to dismiss the City's action. In August 2013, the federal court remanded the action back to state court. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

17. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to June 30, 2013 through September 5, 2013, the date the audited consolidated financial statements of UPMC were issued.

On July 1, 2013, UPMC, Altoona Regional Health System ("Altoona") and Altoona's supporting foundation, The Foundation for Life, executed an Integration and Affiliation Agreement (the "Agreement") providing for an affiliation between UPMC and Altoona. Altoona is a multi-institutional nonprofit health system that includes hospitals and a network of other health care providers servicing the city of Altoona and a larger multi-county area in western Pennsylvania. The transaction is intended to preserve and enhance the mission of Altoona and to enhance Altoona's ability to provide high-quality health services to the Altoona community. On the date of the affiliation, the articles of incorporation and bylaws of Altoona were amended such that UPMC became the sole corporate member of Altoona.

As a result of the affiliation, UPMC acquired approximately \$363,000 of total assets, consisting primarily of \$151,000 of net property, plant and equipment and \$113,000 in cash and investments, and assumed approximately \$238,000 of Altoona's liabilities consisting primarily of \$98,000 in long-term debt obligations and \$74,000 of pension obligations. Pursuant to the Agreement, UPMC will provide Altoona with a total investment of \$250,000 over a 10-year period that will support expansion and enhancement of medical services for the communities that Altoona serves. Additionally, UPMC will provide seed funding in the amount of \$10,000 to The Foundation for Life. As the date of this report, the initial accounting for this acquisition was being assessed and subject to external valuation. Accordingly, disclosures for the amounts recognized as of the acquisition date have not been presented.