UPMC Year End Financial and Operating Report & Audited Consolidated Financial Statements

FOR THE PERIOD ENDED DECEMBER 31, 2020

UPMC
LIFE CHANGING MEDICINE

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The following financial data is as of and for the years ended December 31, 2020 and 2019. 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 Year End Financial and Operating Report & Audited Consolidated Financial Statements, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.

UPMC LIFE CHANGING MEDICINE

INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED DECEMBER 31, 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 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. 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 nationally 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 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 millions (except for statistical information). MD&A should be read in conjunction with the accompanying audited consolidated financial statements.

INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED DECEMBER 31, 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 effect 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'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 and continued to rebound through year end. Volumes related to COVID-19 patients increased sharply in November as community spread increased throughout the regions in which UPMC serves. UPMC was prepared to manage this increased patient volume and has seen this volume begin to subside in early 2021.

On March 27, 2020, the federal government enacted the CARES Act that provides, among other funding sources, relief funds to hospitals and other health care providers on the front lines of the COVID-19 response. This funding is to be used to support health care related expenses or lost revenue attributable to COVID-19. Beginning in April 2020, over 90 individual UPMC facilities received an aggregate of approximately $460 million of federal CARES Act funding as of December 31, 2020, of which approximately $380 million was recognized as other operating revenue for the year ended December 31, 2020. The remaining government payments received will be recognized in operations as other operating revenue in future periods, subject to complying with certain terms and conditions and ongoing 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") have expanded the current Accelerated and Advance Payment Program. Beginning in April 2020, CMS provided advance funding that aggregated to a total of approximately $840 million to 185 individually identified UPMC entities as of December 31, 2020. In October 2020, a bill was signed into law which changed the original Medicare loan repayment terms for health care providers allowing recoupment to begin one year after the Medicare Accelerated and Advance Payment Program loan was issued, an extension from 120 days under previous law. The recoupment rate has been changed to allow providers 29 months after receipt of the advances to pay back the funds in full before interest would begin to accrue.

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 issuing $2.17 billion of debt. Refer to the Asset and Liability Management section on page 14 for additional details.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED DECEMBER 31, 2020

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Years Ended December 31	2020	2019*
Operating revenues	$ 23,093	$ 20,609
Operating income	$ 836	$ 239
Operating margin %	3.6%	1.2%
Operating margin % (including income tax and interest expense)	2.8%	0.4%
Gain from investing and financing activities	$ 242	$ 374
Excess of revenues over expenses	$ 1,073	$ 420
Operating EBIDA	$ 1,522	$ 877
Capital expenditures	$ 865	$ 971
Reinvestment ratio	1.26	1.52

Selected Other Information as of	December 31, 2020	December 31, 2019*
Total cash and investments	$ 9,873	$ 6,600
Unrestricted cash and investments	$ 8,440	$ 5,057
Unrestricted cash and investments over long-term debt	$ 2,036[1]	$ 912
Days of cash on hand	142	93
Days in net accounts receivable	39	44
Average age of plant (in years)	9.2	9.0

**Reclassifications were made to prior year to conform to current year presentation. See reclassifications disclosure in Footnote 1.*
[1]Excludes $840 million of Medicare advance funding and $225 million of deferred FICA payments.

Operating income for the year ended December 31, 2020 increased $597 million compared to the same period in the prior year. The increase in operating income versus prior year is a result of improved financial performance within the Insurance Services division due to increased enrollment, decreased medical utilization as a result of the COVID-19 pandemic and improving performance in its Community Health Choices product; a one-time gain resulting from the UPMC Chartwell and CarepathRx transaction (see Note 3 to the audited financial statements) and the negative financial effect of reduced volumes within the Health Services division not fully offset by federal CARES Act funding.

To better reflect UPMC's core operating activities of providing direct patient care and offering health insurance in its financial statement presentation, UPMC has reclassified academic and research support provided to the University of Pittsburgh. For the years ended December 31, 2020 and 2019, respectively, these amounts were $227 million and $212 million.

Excess of revenues over expenses was $1,073 million and operating earnings before interest, depreciation and amortization totaled $1,522 million for the year ended December 31, 2020. As of December 31, 2020, UPMC had $9.9 billion of cash and investments, of which approximately $3.1 billion is held by UPMC's regulated health and captive insurance companies. For the year ended December 31, 2020:

- Hospital medical-surgical admissions and observation cases decreased 10% compared to the prior year,
- Hospital outpatient revenue per workday decreased 3% compared to the prior year,
- Physician service revenue per weekday decreased 5% from the comparable period in the prior year and
- Enrollment in UPMC's Insurance Services grew to nearly 4.0 million members as of December 31, 2020.

UPMC's gain from investing and financing activities for the year ended December 31, 2020 was $242 million. UPMC continues to have a long-term perspective with regard to its investment activities.

BUSINESS HIGHLIGHTS

The new UPMC Children's Harrisburg inpatient unit, located within UPMC Pinnacle Harrisburg, treated its first patients in November 2020. The newly constructed $12 million unit brings UPMC Children's Hospital of Pittsburgh's nationally ranked specialty care to families in south-central Pennsylvania. The 26-bed unit includes 11 new, private rooms each designed for universal use, meaning children stay in one room throughout their hospital stay and the appropriate level of care is brought to them. The unit mirrors the design of UPMC Children's Hospital of Pittsburgh, which has yielded higher-quality outcomes and high-ranking patient and family experiences, since it eliminates multiple patient transfers. The comprehensive care team at UPMC Children's Harrisburg is supported by specialists in Pittsburgh 24/7 through bedside telemedicine, offering real-time consultation to more than 400 specialty care providers. In addition, UPMC provides around-the-clock access to board-certified, pediatric emergency medicine physicians at UPMC Children's Hospital of Pittsburgh through video Emergency Department-to-Emergency Department consultations. Since Pinnacle hospitals were merged into the UPMC network in 2017, UPMC has invested $910 million in Pinnacle facilities, representing UPMC's commitment to offering world-class care to the communities in south-central Pennsylvania.

In November 2020, UPMC Magee-Womens Hospital opened UPMC Magee-Womens Specialty Services at the UPMC Lemieux Sports Complex in Cranberry, north of Pittsburgh. The newly constructed expansion has created a centralized location that provides women across Pittsburgh's northern communities access to leading UPMC Magee clinicians, the latest technology and personalized care through all stages of their lives. UPMC Magee-Womens Specialty Services partners closely with UPMC Hillman Cancer Center, the region's only National Cancer Institute-designated Comprehensive Cancer Center for women's cancer diagnostics and prevention. It also works in coordination with expert surgeons and teams at nearby UPMC Passavant campuses in Cranberry and McCandless townships.

In November 2020, the expansion of UPMC East's multi-specialty outpatient facility in Greensburg was completed. The 2,520-square-foot clinic houses 14 UPMC East clinicians and an array of patient-centered outpatient services to the Greensburg area, where there has been increasing demand for UPMC care. Services available include UPMC Sports Medicine and orthopaedic care, heart and vascular, pain management, gastroenterology, general surgery and Magee-Womens Health services. In addition to the scheduled clinical services, walk-in x-ray services are also available. To address the increasing number of patients from the surrounding area seeking high-quality care at UPMC East, the hospital recently expanded specialty services and completed renovation of its emergency department, more than doubling its capacity.

In December 2020, UPMC opened a new 46,000-square-foot multi-specialty outpatient facility in Pleasant Hills, southeast of Pittsburgh. It brings more than 20 patient-centered outpatient services to the busy Route 51 corridor, where there has been high patient demand for UPMC care. Services in the new facility include multi-specialty outpatient surgery, UPMC Magee-Womens Specialty Services, heart and vascular, diagnostic imaging and UPMC Children's Express Care—UPMC's after-hours pediatric urgent care clinic.

UPMC continues to reinvest in other new facilities to advance high-quality clinical care for all the regional communities it serves. UPMC Hamot's seven story inpatient tower is on schedule to be open for patients in early 2021. The largest construction project in Hamot's history, the $111 million investment will allow for 64 new ICU beds and an expanded imaging department as well as three MRIs to meet the increasing demand for UPMC care in the Erie region. Meanwhile, construction is ongoing for the UPMC Vision and Rehabilitation Hospital on the UPMC Mercy campus in Uptown Pittsburgh. The current timeline is to complete construction by December 2022 and see the first patients in May 2023. The $490 million, 445,000 square-foot clinical and research tower will be the new home of the UPMC Ophthalmology and Physical Medicine and Rehabilitation Departments. The project also includes a structure to accommodate 1,100 vehicles.

In December 2020, CarepathRx, a leader in pharmacy and medication management solutions for vulnerable and chronically ill patients, announced a partnership with UPMC's Chartwell subsidiary that expands patient access to innovative specialty pharmacy and home infusion services. Under the landmark agreement, CarepathRx acquired the management services organization responsible for the operational and strategic management of Chartwell while UPMC became a strategic investor in CarepathRx. The company works closely with partners across the health care spectrum—including health systems, community physicians, home health agencies and payors. Today, CarepathRx delivers its services to more than 600 hospitals across the country, and the new partnership expands CarepathRx's specialty and home infusion capabilities.

In December 2020, UPMC announced it would expand services at Aut Even Hospital in Kilkenny, Ireland's oldest private hospital, to better serve patients throughout the country. Patients and staff at the 105-year-old hospital, to be renamed UPMC Aut Even Hospital, will benefit from UPMC's planned investments in new or additional medical services and technologies. Accredited by The Joint Commission International, Aut Even is a 71-bed elective, private hospital with an 18-bed day surgery unit. It currently delivers a wide range of surgical, diagnostic and medical services across more than 20 specialties, including orthopaedics, ophthalmology, gynecology, endoscopy and radiology. This acquisition closed in January 2021. Since opening its first cancer center in Waterford in 2006, UPMC has demonstrated its commitment to improving health care in Ireland while supporting UPMC's operations and research worldwide. Besides the addition of Aut Even, UPMC acquired in 2018 what is now UPMC Whitfield Hospital, one of the largest private hospitals in the south of Ireland and added UPMC Kildare Hospital in 2019. UPMC also operates a radiotherapy center in Cork in partnership with the Bon Secours Mercy Health System, established a nationwide Concussion Network and most recently opened its first international UPMC Sports Medicine Clinic at WIT Arena in Waterford. UPMC also recently announced plans to create the UPMC Global Technology Operations Center in Kilkenny.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Year Ended December 31, 2020 *(in millions)*

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue	$ 11,613	$ -	$ (2,413)	$ 9,200
Insurance enrollment revenue	-	11,432	-	11,432
Other revenue	1,848	856	(243)	2,461
Total operating revenues	$ 13,461	$ 12,288	$ (2,656)	$ 23,093
Expenses:				
Salaries, professional fees and benefits	$ 7,300	$ 511	$ (33)	$ 7,778
Insurance claims expense	-	10,329	(2,413)	7,916
Supplies, purchased services and general	5,072	1,015	(210)	5,877
Depreciation and amortization	671	15	-	686
Total operating expenses	13,043	11,870	(2,656)	22,257
Operating income	$ 418	$ 418	$ -	$ 836
Operating margin %	3.1%	3.4%	-	3.6%
Operating margin % (including income tax and interest expense)	1.9%	3.2%	-	2.8%
Operating EBIDA	$ 1,089	$ 433	$ -	$ 1,522
Operating EBIDA %	8.1%	3.5%	-	6.6%

Year Ended December 31, 2019* *(in millions)*

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue	$ 11,250	$ -	$ (2,149)	$ 9,101
Insurance enrollment revenue	-	9,863	-	9,863
Other revenue	1,196	660	(211)	1,645
Total operating revenues	$ 12,446	$ 10,523	$ (2,360)	$ 20,609
Expenses:				
Salaries, professional fees and benefits	$ 6,868	$ 462	$ (31)	$ 7,299
Insurance claims expense	-	9,073	(2,149)	6,924
Supplies, purchased services and general	4,729	960	(180)	5,509
Depreciation and amortization	623	15	-	638
Total operating expenses	12,220	10,510	(2,360)	20,370
Operating income	$ 226	$ 13	$ -	$ 239
Operating margin %	1.8%	0.1%	-	1.2%
Operating margin % (including income tax and interest expense)	1.0%	(0.1)%	-	0.4%
Operating EBIDA	$ 849	$ 28	$ -	$ 877
Operating EBIDA %	6.8%	0.3%	-	4.3%

** Reclassifications were made to prior year to conform to current year presentation. See reclassifications disclosure in Footnote 1.*

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 marketplace; (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 the 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, 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 year ended December 31, 2020 increased $192 million versus the same period in the prior year, primarily resulting from a one-time gain of $201 million related to the UPMC Chartwell and CarepathRx transaction (see Note 3 to the Audited Financial Statements), operating performance efficiencies, and the effect of COVID-19 on operations not fully offset by federal CARES Act funding.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have nearly four million members as of December 31, 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 Long Term Services and Supports ("LTSS") and is designed to increase opportunities for older Pennsylvanians and individuals with physical disabilities to remain in their homes and communities rather than in facilities.

Insurance Services operating income for the year ended December 31, 2020 increased by $405 million versus the same period in the prior year due to increased enrollment, decreased medical utilization as a result of the COVID-19 pandemic and improving performance in its Community Health Choices product.

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 smart technologies 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 consolidated statements of operations and changes in net assets, consistent with the long-term nature of developing and commercializing technology-enabled initiatives.

REVENUE METRICS – HEALTH SERVICES

Medical-Surgical Admissions and Observation Visits

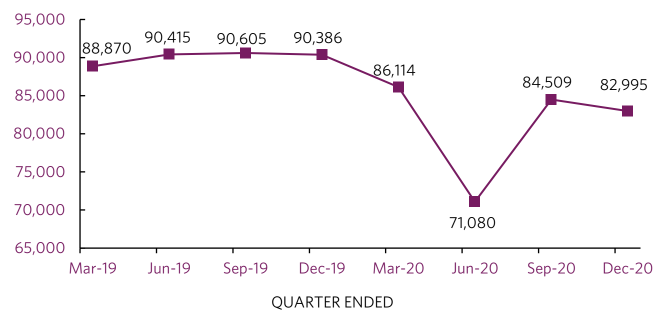
Inpatient activity as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the year ended December 31, 2020 decreased 10% compared to the same period in 2019 driven by volume decreases as a result of the COVID-19 pandemic; however, volumes have since recovered to near pre-COVID-19 levels.

For the Years Ended December 31

(in thousands)	2020*	2019**	Change
Academic	111.4	126.3	(12)%
Community	51.2	57.8	(11)%
Regional	162.1	176.2	(8)%
Total	**324.7**	**360.3**	**(10)%**

*Excludes UPMC Western Maryland
**Reclassifications were made to prior year to conform to current year presentation

Quarter Ended



Outpatient Revenue per Workday

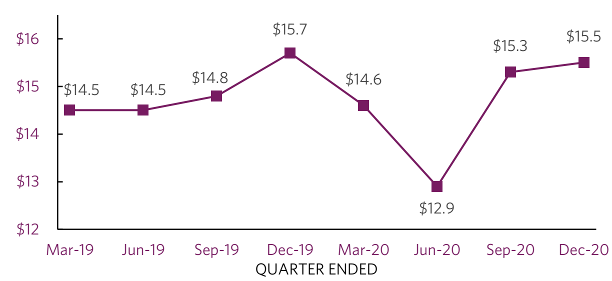
UPMC's outpatient activity for the year ended December 31, 2020 as measured by average revenue per workday decreased 3% compared to the same period in 2019. Decreases in revenue per workday from prior periods driven by volume declines related to the COVID-19 pandemic have since recovered as volumes have returned to pre-COVID-19 levels. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Years Ended December 31

(in thousands)	2020*	2019**	Change
Academic	$ 5,833	$ 5,940	(2)%
Community	1,556	1,600	(3)%
Regional	6,991	7,321	(5)%
Total	**$ 14,380**	**$ 14,861**	**(3)%**

*Excludes UPMC Western Maryland
**Reclassifications were made to prior year to conform to current year presentation

Quarterly Average (in millions)



REVENUE METRICS – HEALTH SERVICES (CONTINUED)

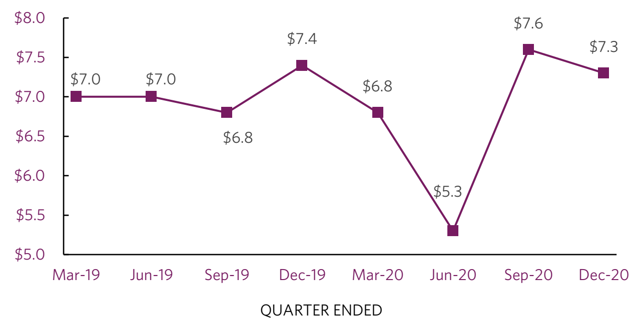
Physician Service Revenue per Weekday

UPMC's physician activity for the year ended December 31, 2020 as measured by average revenue per weekday decreased 5% from the comparable period in 2019. Decreases in revenue per weekday from prior periods driven by volume declines related to the COVID-19 pandemic have since recovered as volumes have returned to pre-COVID-19 levels. Physician services activity is measured on a weekday basis.

For the Years Ended December 31			
(in thousands)	**2020***	2019	Change
Academic	$ 3,322	$ 3,624	(8)%
Community	1,607	1,670	(4)%
Regional	1,825	1,779	3%
Total	**$ 6,754**	**$ 7,073**	**(5)%**

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.

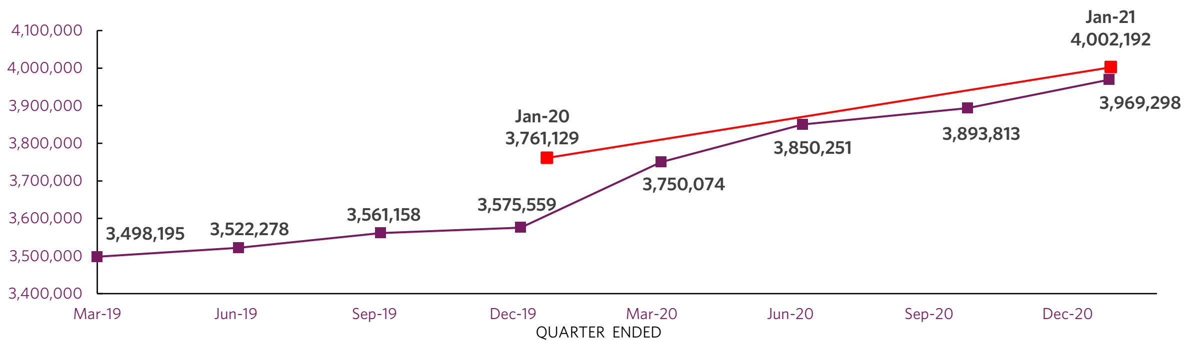
	Years Ended December 31	
	2020*	**2019**
Medicare	48%	47%
Medical Assistance	17%	17%
UPMC Insurance Services Commercial	12%	14%
Highmark Commercial	9%	6%
National Insurers Commercial	6%	7%
Self-pay/Other	8%	9%
Total	**100%**	**100%**

Excludes UPMC Western Maryland

OPERATING METRICS - INSURANCE SERVICES

Membership

Membership in the UPMC Insurance Services division increased to 3,969,298 as of December 31, 2020, an 11% increase versus December 31, 2019.



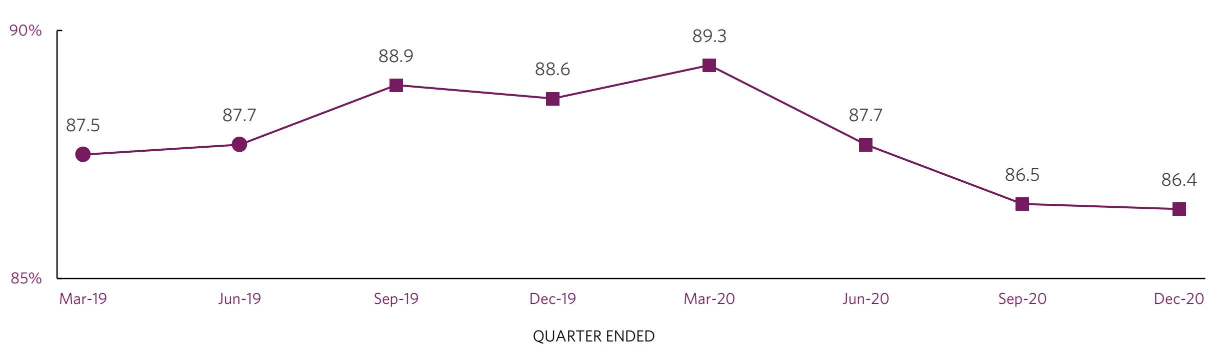
As of	Jan 1, 2021	Jan 1, 2020*	Dec 31, 2020	Dec 31, 2019*
Commercial Health	678,666	713,940	686,157	708,500
Medicare	198,119	189,865	196,758	192,788
Medical Assistance	530,453	460,031	523,235	459,874
Sub-Total Physical Health Products	1,407,238	1,363,836	1,406,150	1,361,162
Community HealthChoices	133,320	123,043	132,986	70,870
Behavioral Health	1,172,238	1,019,284	1,159,027	995,203
Sub-Total Health Products	2,712,796	2,506,163	2,698,163	2,427,235
Work Partners and Life Solutions	736,770	691,816	725,558	628,095
Ancillary Products	483,736	479,588	479,120	439,334
Third-Party Administration	68,890	83,562	66,457	80,895
Total Membership	4,002,192	3,761,129	3,969,298	3,575,559

**Reclassifications were made to prior year to conform to current year presentation*

Health Care Spending Ratio

UPMC Insurance Services health care spending ratio has decreased to 86.4% as of December 31, 2020 as a result of decreases in claims expenses as a result of the COVID-19 pandemic.

Trailing Twelve Months



KEY FINANCIAL INDICATORS

(Dollars in millions)

Operating Earnings before Interest, Depreciation and Amortization

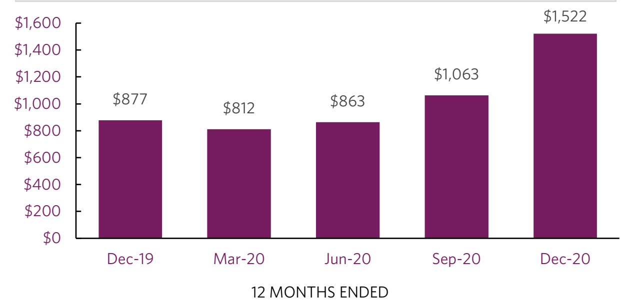
Operating EBIDA for the year ended December 31, 2020 increased 74% as compared to the year ended December 31, 2019.

For the Years Ended December 31

(in thousands)	2020	2019*	Change
Operating Income	$ 836	$ 239	250%
Depreciation and Amortization	686	638	8%
Operating EBIDA	$ 1,522	$ 877	74%

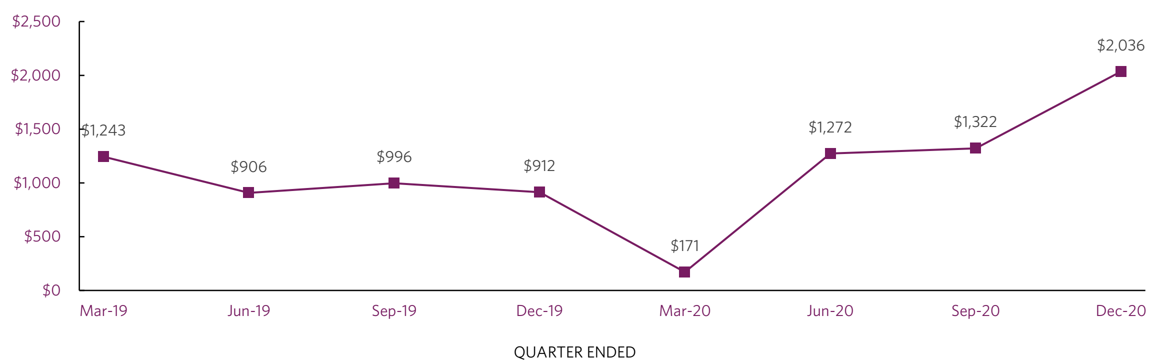
**Reclassifications were made to prior periods to conform to current year presentation. See reclassifications disclosure in Footnote 1.*

Trailing Twelve Months Operating EBIDA*



Unrestricted Cash and Investments Over Long Term Debt

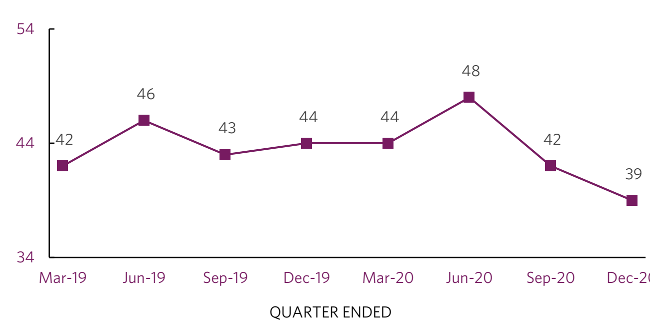
Unrestricted cash and investments over long term debt as of December 31, 2020 increased by $1.1 billion as compared to December 31, 2019 as operating activities exceeded investing activities. Advance funding from CMS of $840 million and deferred FICA payments of $225 million are excluded from December 31, 2020.



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.

By Receivable	2020 Balance	Days Dec 31, 2020	Days Dec 31, 2019
Patient AR	$ 1,211	47	45
Other AR	1,413	35	43
Consolidated	$ 2,624	39	44

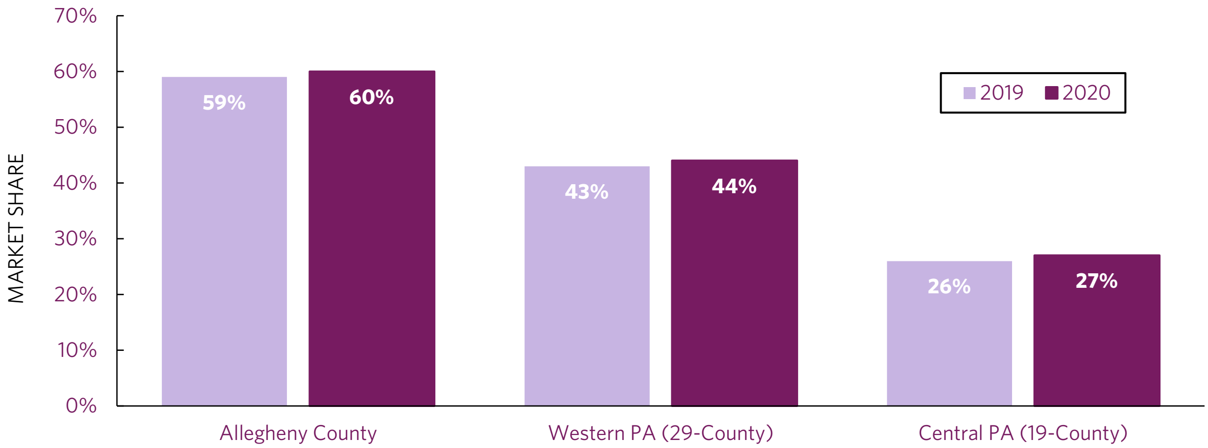


MARKET SHARE

The chart below shows the change in UPMC's estimated inpatient market share for the first two quarters of calendar years 2019 and 2020 by service area.[1] This is the most recent market share data currently available.

UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE

AS OF JUNE 30[2]



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

(2) Excludes psychiatry and substance abuse discharges.

ASSET AND LIABILITY MANAGEMENT

During the three months ended December 31, 2020, UPMC's investment portfolio returned 8.2%. As of December 31, 2020, UPMC utilized 155 ongoing external investment managers, including 48 traditional managers, 12 hedge fund managers and 95 private capital managers. UPMC is also invested with an additional 34 legacy private capital and hedge fund managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of 9.4%, 6.7% and 8.3% for the trailing one-, three- and five-year periods. As of December 31, 2020, 72% of UPMC's investment portfolio could be liquidated within three days.

UPMC's annualized cost of capital during the twelve-month period ended December 31, 2020 was 3.12%. This cost of capital includes the accrual of interest payments, the amortization of financing costs and original issue discount or premium, the ongoing costs of variable rate debt and the cash flow impact of derivative contracts. As of December 31, 2020, the interest rates on UPMC's long-term debt were approximately 81% fixed and 19% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 1.66%. The annualized interest cost for the fixed rate debt was 3.48%. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of $600 million. As of December 31, 2020, UPMC had approximately $84 million Letters of Credit outstanding under the credit facility leaving $516 million available to fund operating and capital needs, none of which was drawn. UPMC has credit facilities of $19 million (a decrease from $150 million to $19 million from August 15 to May 14) and $50 million with expiration dates in April 2022. Both credit facilities support the Insurance Services Division. As of December 31, 2020, there were no draws on either credit facility.

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 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 "Interim Financings"). 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 the Series 2020A and 2020B tax-exempt revenue bonds to fund a portion of the capital project purposes of the Original 2020 Financing Plan and refund certain outstanding debt contemplated to be refinanced as part of the Original 2020 Financing Plan. This included debt incurred in connection with UPMC's acquisition of UPMC Western Maryland. Following the issuance of the 2020A and 2020B bonds, UPMC had over $7 billion of debt outstanding. Late in the second quarter of 2020, UPMC repaid $420 million of the Interim Financings. During the third quarter of 2020, UPMC redeemed $163 million of debt contemplated to be refinanced as part of the Original 2020 Financing Plan. 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 2020 Financing Plan. During the fourth quarter of 2020, UPMC redeemed an additional $345 million of debt contemplated to be refinanced as part of the Original 2020 Financing Plan. As of December 31, 2020, UPMC had approximately $2.3 billion of unregulated working capital.

The table below compares reported Investing and Financing Activity for the years ended December 31, 2020 and 2019 by type.

Investing and Financing Activity by Type

Years Ended December 31	**2020**	2019
(in thousands)		
Realized gains	**$ 271,288**	$ 232,814
Interest and dividends, net of fees	**76,117**	91,767
Realized investment revenue	**$ 347,405**	$ 324,581
Unrealized (losses) gains on derivative contracts	**(320)**	1,444
Other unrealized gains	**208,855**	342,555
Investment revenue	**$ 555,940**	$ 668,580
Gain (loss) on extinguishment of debt	**1,274**	(6,471)
Interest expense	**(177,244)**	(151,536)
UPMC Enterprises activity	**(137,790)**	(136,443)
Gain from investing and financing activities	**$ 242,180**	$ 374,130

Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of December 31, 2020, UPMC had approximately $1.5 billion of cash and cash equivalents on hand and borrowing availability under the primary credit facility was $516 million.

Net cash provided by operating activities was $1.0 billion in the year ended December 31, 2020 compared to $959 million in the year ended December 31, 2019. The increase in the current year versus the prior year includes the receipt of approximately $840 million in advance funding from CMS's Accelerated and Advance Payment Program and $225 million related to payroll tax deferrals, both programs established under the CARES Act. Operating EBIDA was $1.5 billion for the year ended December 31, 2020, compared to $877 million for the year ended December 31, 2019.

Key uses of cash from investing activities for the year ended December 31, 2020 include capital expenditures of $865 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 DECEMBER 31, 2020

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, rehabilitation and skilled nursing patient activity for the years ended December 31, 2020 and 2019.

	Years Ended December 31	
	2020*	2019
Licensed Beds	8,662	8,365
BEDS IN SERVICE		
Medical-Surgical	4,836	4,776
Psychiatric	405	414
Rehabilitation	245	241
Skilled Nursing	1,441	1,443
Total Beds in Service	6,927	6,874
PATIENT DAYS		
Medical-Surgical	1,257,382	1,302,044
Psychiatric	118,543	126,606
Rehabilitation	72,840	74,161
Skilled Nursing	410,416	446,645
Total Patient Days	1,859,181	1,949,456
Average Daily Census	5,080	5,341
Observation Days	147,591	165,269
Obs Average Daily Census	403	453
ADMISSIONS AND OBSERVATION CASES		
Medical-Surgical	236,480	258,585
Observation Cases	88,218	102,878
Subtotal	324,698	361,463
Psychiatric	10,472	11,328
Rehabilitation	4,568	4,789
Skilled Nursing	3,404	4,851
Total Admissions and Observation Cases	343,142	382,431
Overall Occupancy	79%	84%
AVERAGE LENGTH OF STAY		
Medical-Surgical	5.3	5.0
Psychiatric	11.3	11.2
Rehabilitation	15.9	15.5
Skilled Nursing	120.6	92.1
Overall Average Length of Stay	7.3	7.0
Emergency Room Visits	906,950	1,111,573
TRANSPLANTS (DOMESTIC)		
Liver	177	153
Kidney	317	287
All Other	307	332
Total	801	772
OTHER POST-ACUTE METRICS		
Home Health Visits	770,740	818,063
Hospice Care Days	253,398	265,328
Outpatient Rehab Visits (CRS)	605,968	686,935

**Excludes UPMC Western Maryland*

OUTSTANDING DEBT

PERIOD ENDED DECEMBER 31, 2020
(DOLLARS IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	$43,584
	UPMC	2007A	53,312
	UPMC	2011A	68,503
	UPMC	2017D	399,714
	UPMC	2019A	805,853
Monroeville Finance Authority	UPMC	2012	309,236
	UPMC	2013B	52,558
	UPMC	2014B	46,292
Pennsylvania Economic Development Financing Authority	UPMC	2013A	109,739
	UPMC	2014A	283,393
	UPMC	2015B	119,419
	UPMC	2016	240,358
	UPMC	2017A	433,712
	UPMC	2017B	93,008
	UPMC	2017C	134,605
	UPMC	2020A	278,170
Erie County Hospital Authority	Hamot Health Foundation	2010A	6,968
Lycoming County Authority	The Williamsport Hospital	2011	11,389
Tioga County Industrial Development Authority	Laurel Health System	2010	6,563
	Laurel Health System	2011	4,909
Dauphin County General Authority	Pinnacle Health System	2012A	136,325
	Pinnacle Health System	2016A	100,543
	Pinnacle Health System	2016B	85,170
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	6,856
	Hanover Hospital	2015	22,615
Potter County Hospital Authority	UPMC	2018A	17,888
Somerset County Hospital Authority	Somerset Hospital	2009	980
	Somerset Hospital	2015A	16,000
Maryland Health and Higher Educational Facilities Authority	UPMC	2020B	205,189
None	UPMC	2011B	99,879
	UPMC	2018B	141
	UPMC	2020D	748,977
	UPMC	2020 Term Loans	499,877
	Susquehanna Health Innovation Center	New Market Tax Credit	17,457
	Somerset Management Services	2013	1,606
	Various	Financing Leases & Loans	124,560
		Swap Liabilities	6,562
Total			$5,591,910

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

Source: UPMC Records

DEBT COVENANT CALCULATIONS

PERIOD ENDED DECEMBER 31, 2020

DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

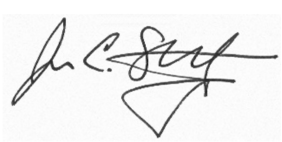
	Trailing Twelve-Month Period Ended December 31, 2020
Excess of revenues over expenses	$ 1,073,396
ADJUSTED BY:	
Net Unrealized Gains during Period[1]	(206,535)
Depreciation and Amortization[1]	685,585
Loss on Defeasance of Debt[1]	(1,274)
Inherent Contribution[1]	(160,565)
Realized Investment Impairments[2]	(5,684)
Interest Expense[3]	167,727
Revenues Available for Debt Service	$ 1,552,650
Historical Debt Service Requirements - 2007 MTI	$ 322,802
Debt Service Coverage Ratio - 2007 MTI	4.81X
Historical Debt Service Requirements - All Debt and Finance Leases	$ 356,022
Debt Service Coverage Ratio - All Debt and Finance Leases	4.36X

LIQUIDITY RATIO AS OF DECEMBER 31, 2020

Unrestricted Cash and Investments	$ 8,440,145
Master Trust Indenture Debt	$ 5,209,677
Unrestricted Cash to MTI Debt	**1.62**

[1] *Non-Cash.*
[2] *Reflects ultimate realization of previously impaired cost-based investments.*
[3] *Includes only interest on long-term debt.*

I hereby certify to the best of my knowledge that, as of December 31, 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.



J.C. Stilley
Treasurer
UPMC

Audited Consolidated Financial Statements

FOR THE PERIOD ENDED DECEMBER 31, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of UPMC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of UPMC (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2021 (not presented herein) expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Implicit and Explicit Price Concessions for Revenue Recognition

Description of the Matter

For the year ended December 31, 2020, the Company's net patient service revenue was $9.2 billion. As discussed in Note 1 to the consolidated financial statements, net patient service revenue is recorded based upon the estimated amounts the Company expects to be entitled to receive from patients and third-party payers in exchange for providing patient care. Estimates of the explicit price concessions under managed care, commercial, and governmental insurance plans are based upon the payment terms specified in the related contractual agreements or as mandated under government payer programs. Management continually reviews the explicit price concession estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care and commercial contractual terms resulting from contract negotiations and renewals. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care insurance coverage may have discounts applied (uninsured discounts and contractual discounts). The Company also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record these revenues and accounts receivable at the estimated amounts the Company expects to collect. Additional collection risks relate to uninsured patients accounts, including amounts owed from patients after insurance has paid the amounts covered by the applicable agreement. Implicit price concessions relate primarily to amounts due directly from patients and are based upon management's assessment of a patient's historical propensity to pay and write-offs, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators.

Auditing management's estimates of explicit and implicit price concessions was complex and judgmental due to the significant data inputs and subjective assumptions utilized in determining related amounts.

How We Addressed the Matter in Our Audit

We tested internal controls that address the risks of material misstatement related to the measurement and valuation of revenues, including estimation of explicit and implicit price concessions. For example, we tested management's internal controls over the key data inputs to the explicit and implicit price concessions models, significant assumptions underlying management's models, and management's internal controls over retrospective hindsight reviews of historical reserve accuracy.

To test the estimated explicit and implicit price concessions, we performed audit procedures that included, among others, assessing methodologies and evaluating the significant assumptions discussed above and testing completeness and accuracy of the underlying data used by the Company in its estimates. We compared the significant assumptions used by management to current industry and economic trends and considered changes, if any, to the Company's business and other relevant factors. We also assessed the historical accuracy of management's estimates based on the results of the analysis comparing prior year estimates to actual results and other analytics as a source of potential corroborative or contrary evidence.

Valuation of Incurred, but Not Paid Claims

Description of the Matter

Reserve for physical health care costs was $716 million at December 31, 2020, a significant portion of which related to the Company's estimate for claims that are incurred but not paid. As discussed in Note 10 to the consolidated financial statements, the Company's liability for incurred but not paid claims is determined using actuarial methods that include a number of factors and assumptions, including completion factors, which represent the average percentage of total incurred claims that have been paid through a given date after being incurred based on historical paid claims data, and trend factors, which represent an estimate of claims expense based on recent claims expense levels and health care cost levels. There is significant uncertainty inherent in determining management's best estimate of completion and trend factors, which are used to calculate actuarial estimates of incurred but not paid claims.

Auditing management's estimate of incurred but not paid claims was complex and required the involvement of our actuarial specialists due to the highly judgmental nature of the completion and trend factor assumptions used in the valuation process. The significant judgment was primarily due to the sensitivity of management's best estimate of completion and trend factor assumptions, which have a significant impact of the valuation of incurred but not paid claims.

How We Addressed the Matter in Our Audit

We tested internal controls over the Company's actuarial process for estimating the liability for incurred but not paid claims. These audit procedures included among others, testing management review controls over completion and trend factors assumption and the review and approval processes that management has in place for estimating the liability for incurred but not paid claims.

To test the Company's liability for incurred but not paid claims, our audit procedures included, among others, testing the completeness and accuracy of the underlying claims and membership data recorded in the source claims processing and disbursement systems to the data used by management in developing completion and trend factor assumptions and comparing a sample of incurred and paid claims to source documentation. With the support of our actuarial specialists, we analyzed the Company's completion and trend factor assumptions based on historical claim experience and emerging cost trends, and independently calculated a range of reasonable reserve estimates for comparison to management's best estimate of the liability for incurred but not paid claims. Additionally, we performed a review of the prior period liabilities for incurred but not paid claims to subsequent claims development.

Ernst + Young LLP

We have served as the Company's auditor since 1994.

Pittsburgh, Pennsylvania
March 1, 2021

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS)

	As of December 31, 2020	As of December 31, 2019
CURRENT ASSETS		
Cash and cash equivalents	$ 1,541,036	$ 351,216
Patient accounts receivable	1,210,992	1,164,840
Other receivables	1,412,735	1,348,964
Securities lending collateral	80,527	73,140
Other current assets	430,038	382,943
Total current assets	4,675,328	3,321,103
Board-designated, restricted, trusteed and other investments	8,332,120	6,248,658
Beneficial interests in foundations and trusts	678,806	624,691
Property, buildings and equipment:		
Land and land improvements	529,575	505,793
Buildings and fixed equipment	8,048,913	7,504,731
Movable equipment	3,146,341	2,972,799
Finance leases	180,988	168,935
Construction in progress	520,119	378,541
	12,425,936	11,530,799
Less allowance for depreciation	(6,315,165)	(5,841,014)
	6,110,771	5,689,785
Operating lease right-of-use assets	1,033,598	1,080,715
Other assets	755,022	529,546
Total assets	$ 21,585,645	$ 17,494,498
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 763,798	$ 669,672
Accrued salaries and related benefits	866,890	793,243
Current portion of insurance reserves	950,387	759,520
Payable under securities lending agreement	80,527	73,140
Current portion of long-term obligations	333,864	316,162
Other current liabilities	1,200,890	536,405
Total current liabilities	4,196,356	3,148,142
Long-term obligations	5,258,046	4,231,077
Pension liability	171,983	-
Long-term insurance reserves	389,290	366,100
Operating lease noncurrent liabilities	963,812	1,010,207
Other noncurrent liabilities	1,184,968	430,863
Total liabilities	12,164,455	9,186,389
Net assets without donor restrictions	8,166,762	7,141,410
Net assets with donor restrictions	1,254,428	1,166,699
Total net assets	9,421,190	8,308,109
Total liabilities and net assets	$ 21,585,645	$ 17,494,498

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(DOLLARS IN THOUSANDS)

	Years Ended December 31	
	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net patient service revenue	**$ 9,199,717**	$ 9,100,868
Insurance enrollment revenue	**11,432,067**	9,862,977
Other revenue	**2,461,633**	1,645,431
Total operating revenues	**23,093,417**	20,609,276
Expenses:		
Salaries, professional fees and employee benefits	**7,778,450**	7,299,574
Insurance claims expense	**7,915,612**	6,923,552
Supplies, purchased services and general	**5,877,393**	5,509,320
Depreciation and amortization	**685,585**	638,199
Total operating expenses	**22,257,040**	20,370,645
Operating income	**836,377**	238,631
Academic and research support provided	**(227,409)**	(212,006)
Inherent contribution	**160,565**	(2,885)
Other non-operating gains	**66,777**	27,354
Income tax expense	**(5,094)**	(4,900)
After-tax income	**$ 831,216**	$ 46,194
Investing and financing activities:		
Investment revenue	**555,940**	668,580
Interest expense	**(177,244)**	(151,536)
Gain (loss) on extinguishment of debt	**1,274**	(6,471)
UPMC Enterprises activity:		
Portfolio company revenue	**53,515**	75,414
Portfolio company and development expense	**(191,305)**	(211,857)
Gain from investing and financing activities	**242,180**	374,130
Excess of revenues over expenses	**1,073,396**	420,324
Other changes in net assets without donor restrictions	**(48,044)**	42,260
Change in net assets without donor restrictions	**1,025,352**	462,584
NET ASSETS WITH DONOR RESTRICTIONS		
Net contributions and other changes	**32,808**	(4,643)
Net realized and unrealized gains on restricted investments	**5,180**	14,476
Restricted net assets acquired	**12,138**	1,525
Assets released from restriction for operations and capital purchases	**(16,512)**	(25,622)
Change in beneficial interests in foundations and trusts	**54,115**	124,734
Change in net assets with donor restrictions	**87,729**	110,470
Change in total net assets	**1,113,081**	573,054
Net assets, beginning of period	**8,308,109**	7,735,055
Net assets, end of period	**$ 9,421,190**	$ 8,308,109

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	Years Ended December 31 2020	2019
OPERATING ACTIVITIES		
Change in total net assets	$ **1,113,081**	$ 573,054
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	**685,585**	638,199
Change in beneficial interest in foundations and trusts	**(54,115)**	(124,734)
Restricted contributions and investment revenue	**(37,988)**	(9,833)
Restricted net assets acquired	**(12,138)**	-
Unrealized gains on investments	**(208,855)**	(342,555)
Realized gains on investments	**(271,288)**	(232,814)
Purchases of non-alternative investments	**(8,283,826)**	(5,990,155)
Sales of non-alternative investments	**6,972,277**	6,657,768
Inherent contribution	**(160,565)**	2,885
Changes in operating assets and liabilities:		
Accounts receivable	**(59,943)**	(369,122)
Other current assets	**(44,815)**	77,513
Accounts payable and accrued liabilities	**131,332**	100,136
Insurance reserves	**214,057**	153,527
Other current liabilities	**665,861**	(157,497)
Other noncurrent assets and liabilities	**612,061**	(20,438)
Other operating changes	**(261,154)**	2,755
Net cash provided by operating activities	**999,567**	958,689
INVESTING ACTIVITIES		
Purchase of property and equipment (net of disposals)	**(844,180)**	(935,814)
UPMC Enterprises investments in joint ventures	**(52,500)**	(21,300)
Cash acquired through affiliations and divestitures	**255,011**	21,272
Net change in investments designated as nontrading	**(37,854)**	4,885
Purchases of alternative investments	**(226,148)**	(233,794)
Sales of alternative investments	**152,530**	484,281
Net change in other assets	**58,196**	(17,506)
Net cash used in investing activities	**(694,945)**	(697,976)
FINANCING ACTIVITIES		
Repayments of long-term obligations	**(2,212,531)**	(1,361,575)
Borrowings of long-term obligations	**3,059,741**	1,164,921
Restricted contributions and investment income	**37,988**	9,833
Net cash provided by (used in) financing activities	**885,198**	(186,821)
Net change in cash and cash equivalents	**1,189,820**	73,892
Cash and cash equivalents, beginning of period	**351,216**	277,324
Cash and cash equivalents, end of period	$ **1,541,036**	$ 351,216
SUPPLEMENTAL INFORMATION		
Finance lease obligations incurred to acquire assets	$ **20,888**	$ 34,700

See accompanying notes

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

The accompanying audited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

New Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board ("FASB") released Accounting Standards Update ("ASU") 2020-07 *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of operations and changes in net assets, apart from contributions of cash and other financial assets. Adoption of this standard is to be applied on a retrospective basis for annual periods beginning after June 15, 2021 and interim periods within the subsequent year. Early adoption is permitted. The adoption of ASU 2020-07 is not expected to have a material impact on UPMC's results from operations, cash flows or debt covenants.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and investments, which are so near to maturity that they present insignificant risk of changes in value. Fixed income instruments with original, short-term maturities of less than 90 days that are held in Master Trust Funds ("MTF") are excluded from cash equivalents as they are commingled with longer-term investments.

Net Patient Service Revenue

UPMC's net patient service revenue is recorded based upon the estimated amounts UPMC expects to be entitled to receive from patients, third-party payers (including health insurers and government programs) and others and includes an estimate of variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, UPMC bills the patients and third-party payers several days after the services are performed and/or the patient is discharged from the facility. Estimates of the explicit price concessions under managed care, commercial and governmental insurance plans are based upon the payment terms specified in the related contractual agreements or as mandated under government payer programs. UPMC continually reviews the explicit price concession estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care and commercial contractual terms resulting from contract negotiations and renewals. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by UPMC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. UPMC believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to inpatient services. UPMC measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and UPMC does not believe it is required to provide additional goods or services to the patient.

(DOLLARS IN THOUSANDS)

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. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). UPMC also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record these revenues at the estimated amounts UPMC expects to collect. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods if final settlements differ from estimates. Adjustments arising from a change to previously estimated transaction prices were not significant in the years ended December 31, 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 deducted from net patient service revenue.

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

The composition of net patient service revenue for the years ended December 31, 2020 and 2019, primarily resulting from patients in the western Pennsylvania region, is as follows:

Years Ended December 31	**2020**	2019
Medicare	**39%**	39%
Commercial	**37%**	38%
Medical Assistance	**16%**	15%
Self-pay/other	**8%**	8%
	100%	100%

(DOLLARS IN THOUSANDS)

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, the "Health Plans") provide health care services on a prepaid basis under various contracts. Insurance enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services, which represents the performance obligation. Health care premium payments received from UPMC's members in advance of the service period are recorded as unearned revenues.

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

Other Revenue

UPMC's other revenue consists of various contracts related to its Health Services and Insurance Services divisions. These contracts vary in duration and in performance obligations. In evaluating these contracts for compliance with ASC 606, *Revenue from Contracts 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.

Receivables

Concentrations of net patient accounts receivable at December 31, 2020 and 2019 include:

Years Ended December 31	**2020**	2019
Commercial	**41%**	42%
Medicare	**32%**	29%
Medical Assistance	**11%**	12%
Self-pay/other	**16%**	17%
	100%	100%

Other receivables are primarily comprised of payments due to Insurance Services and include the uncollected amounts from fully insured groups, individuals and government programs and are reported net of an allowance for estimated terminations and uncollectible accounts.

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. This classification also includes UPMC Enterprises' cost basis investments in early stage entities, which are categorized as alternative investments. Gains and losses on the sales of securities are determined by the average cost method. Realized and unrealized gains and losses are included in investment revenue in the consolidated statements of operations and changes in net assets. Realized and unrealized gains and losses on donor-restricted assets are recorded as changes in net assets with donor restrictions 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 MTF and are summarized as nonalternative investments in Note 5.

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, generally received on a one month lag. 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.

The values of UPMC's private equity investments are based upon financial statements received from the general partners, which are generally received on a quarterly lag. As a result, the market values and earnings recorded as of December 31, 2020 generally reflect the partnership activity experienced during the year ended September 30, 2020. These investments are summarized as alternative investments in Note 5.

Fair Value Elections

Pursuant to accounting guidance provided by ASC 825-10, *Financial Instruments*, UPMC makes elections, on an investment-by-investment basis, as to whether it measures certain equity method investments that are traded in active markets at fair value. Fair value elections are generally irrevocable. The initial unrealized gains recognized upon election of the fair value option are recorded as operating revenue in the consolidated statements of operations and changes in net assets consistent with accounting for other equity method investments where UPMC has the ability to exercise significant influence but not control. Any subsequent changes in the fair value of the investment are recorded as investment revenue in the consolidated statements of operations and changes in net assets consistent with UPMC's reporting of gains and losses on other marketable securities included in board-designated, restricted, trusteed and other investments. Management believes this reporting increases the transparency of UPMC's financial condition.

Financial Instruments

Cash and cash equivalents and investments recorded at fair value aggregate to $9,015,921 and $5,926,923 at December 31, 2020 and 2019, respectively. The fair value of these instruments is based on market prices as estimated by financial institutions. The fair value of amounts owed to counterparties under derivative contracts at December 31, 2020 and 2019, is $6,562 and $6,230, respectively, and due from counterparties is $544 and $532, respectively, based on pricing models that take into account the present value of estimated future cash flows.

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 with a corresponding payable in the consolidated balance sheets. The total collateral is required to have a market value between 102% and 105% of the market value of securities loaned. As of December 31, 2020 and 2019, securities loaned to various parties, of which UPMC maintains ownership, were $251,339 and $218,933, respectively, and total collateral (cash and noncash) received related to the securities loaned was $265,892 and $226,910, respectively.

Beneficial Interests in Foundations and Trusts

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 net assets with donor restrictions because the hospitals' use of these assets is at the discretion of the foundations' independent boards of directors.

Beneficial interests in foundations and trusts of $678,806 and $624,691 and the net assets with donor restrictions of consolidated foundations of $82,580 and $76,297 as of December 31, 2020 and 2019, 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 depreciate the assets over their estimated useful lives (predominantly ranging from 3 to 40 years) and includes depreciation related to finance leases. Certain newly constructed buildings have estimated useful lives of up to 60 years. Depreciation expense on property, buildings and equipment for the years ended December 31, 2020 and 2019 was $682,711 and $637,832, respectively.

Leases

Leases are classified as either operating or financing, and the lease classification determines whether the expense is recognized on a straight-line basis (operating leases) or based on an effective interest method (finance leases). UPMC has made accounting policy elections not to apply lease recognition requirements to short-term leases as well as to use the risk-free discount rate for its operating leases. Operating leases are categorized as operating lease right-of-use assets on the consolidated balance sheets, while finance leases are recognized as property, buildings and equipment. UPMC has also made an accounting policy election not to bifurcate lease components from non-lease components. For leases that include variable lease payments, the payment is determined based on the executed contract terms. Some leases contain options to extend or terminate the lease, but these are not recognized in the right-of-use assets and lease liabilities as of December 31, 2020, unless it is probable that the option will be exercised.

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. There were no significant impairments in the years ended December 31, 2020 or 2019.

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 unless the fair value option is elected. All other noncontrolled investments, generally less than 20% ownership, are carried at cost. Other assets include approximately $390,601 and $140,722 at December 31, 2020 and 2019, respectively, relating to investments in partnerships and joint ventures that provide health care, management, and other goods and services to UPMC, its affiliates and the community at large.

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 December 31, 2020 and 2019, goodwill of $241,075 and $235,753, respectively, is recorded in UPMC's consolidated balance sheets as other assets. The overall increase in goodwill compared to prior year is related to the acquisition of minor businesses in the Health Services division and UPMC Enterprises offset by several minor sales in Health Services.

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. 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. As of December 31, 2020 and 2019, after application of the qualitative approach, there were no indicators of impairment.

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 swap agreements that convert a portion of its variable rate debt to a fixed interest rate. None of UPMC's swaps outstanding as of December 31, 2020 and 2019 are designated as hedging instruments and, as such, changes in fair value are recognized in investing and financing activities as investment revenue (expense) 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 net assets without donor restrictions and net assets with donor restrictions, according to the absence or existence of donor-imposed restrictions. Board-designated net assets are net assets without donor restrictions that have been set aside by the Board for specific purposes. Net assets with donor restrictions are those assets, including contributions and accumulated investment returns, whose use has been limited by donors for a specific purpose or time period or are those for which donors require the principal of the gifts to be maintained in perpetuity to provide a permanent source of income.

Net assets with donor restrictions include $384,683 and $365,099 of net assets held in perpetuity and $869,745 and $801,600 of temporary restricted net assets at December 31, 2020 and 2019, respectively. Additionally, net assets with donor restrictions include beneficial interests in foundations that support research and other health care programs. Some net assets with donor restrictions are limited by donors and the foundations to a specific time period or purpose and are reclassified to net assets without donor restrictions 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.

Inherent Contribution

UPMC applies the guidance set forth in ASC 958-805, *Not-for-Profit Entities for Business Combinations*, for affiliations and acquisitions. 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 recognizes an excess of the acquisition date fair value of 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 or, conversely, recognizes the excess of the fair value of the consideration transferred over the fair value of the unrestricted net assets acquired as goodwill. Adjustments to these fair value assessments and other related charges are recorded in the statement of operations and changes in net assets in the period incurred or identified.

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 net assets without donor restrictions except for contributions and distributions from foundations for the purchase of property and equipment, adjustments for pension liability, other than net periodic pension cost, discontinued operations, if any, and the cumulative effect of changes in accounting principles, if any.

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.

Reclassifications

In order to increase transparency within UPMC's consolidated financial statements, expenditures related to academic and research support provided to the University have been reclassified to a separate line item in the consolidated statements of operations and changes in net assets. To conform to this presentation for the year ended December 31, 2020, a reclassification of $212,006 was made that reduced supplies, purchased services and general expense and increased academic and research support provided for the year ended December 31, 2019. As a result of this reclass, there was no impact to excess of revenues over expenses or net assets without donor restrictions.

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 health care industry and beyond. As an integrated health care delivery and finance system, 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 UPMC's 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 an effect 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. UPMC has taken, and continues to take, various actions to increase its 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 health care providers on the front lines of the COVID-19 response. This funding is to be used to support health care related expenses or lost revenue attributable to COVID-19. Beginning in April 2020, over 90 individual UPMC facilities received an aggregate of approximately $460,000 of federal CARES Act funding as of December 31, 2020, of which approximately $380,000 was recognized as other operating revenue for the year ended December 31, 2020. The remaining government payments received will be recognized in operations as other operating revenue in future periods, subject to complying with certain terms and conditions and ongoing 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") have expanded the current Accelerated and Advance Payment Program. Beginning in April 2020, CMS provided advance funding that aggregated to a total of approximately $840,000 to 185 individually identified UPMC entities as of December 31, 2020. In October 2020, a bill was signed into law which changed the original Medicare loan repayment terms for health care providers allowing recoupment to begin one year after the Medicare Accelerated and Advance Payment Program loan was issued, an extension from 120 days under previous law. The recoupment allows providers 29 months after receipt of the advances to pay back the funds in full before interest would begin to accrue.

3. SIGNIFICANT TRANSACTIONS

In February 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 $532,000 of total assets, consisting of $241,000 of property, plant and equipment, $189,000 of cash and investments, $60,000 of current and long-term assets and $42,000 of accounts receivable, and assumed approximately $360,000 of total liabilities, including $210,000 of long-term debt obligations, and current and long-term liabilities of $150,000, and acquired approximately $12,000 of net assets with donor restrictions.

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 recognizes an excess of the acquisition date fair value of the net assets without donor restrictions acquired over the fair value of the consideration transferred as a separate credit in its consolidated statement of operations and changes in net assets as of the acquisition date. Accordingly, UPMC recognized an inherent contribution related to the net assets without donor restrictions acquired in the transaction of approximately $160,000 in its consolidated statement of operations and changes in net assets for the year ended December 31, 2020. The inherent contribution recorded for the period is based on the fair market values of the net assets without donor restrictions acquired. WMHS, contributing $314,000 of total operating revenues to UPMC's consolidated results for the year ended December 31, 2020, would have contributed an additional $32,000 of total operating revenues had it been consolidated for the entire year ended December 31, 2020. If WMHS had been consolidated for the year ended December 31, 2019, an additional $346,000 of total operating revenues would have been recognized.

In December 2020, UPMC executed an agreement with CarepathRx whereby a portion of UPMC Chartwell, one of the largest health system-based providers of home infusion therapy and specialty pharmacy services, was sold to CarepathRx. UPMC Chartwell transferred certain management and administrative assets, including related personnel, to a newly formed management services entity (the "MSO"). All of the equity interests in the MSO were subsequently sold to CarepathRx in exchange for $385,000 in aggregate consideration, comprised of $210,000 in cash and $175,000 in equity of CarepathRx. UPMC retains its ownership of Chartwell, which will in turn retain all core pharmacy and fulfillment assets. After considering non-controlling interests, UPMC recognized a gain on sale of approximately $201,000 in other revenue in its consolidated statement of operations and changes in net assets for the year ended December 31, 2020, in accordance with ASC 810, *Consolidation*.

(DOLLARS IN THOUSANDS)

4. 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 $110,378 and $107,520 for the years ended December 31, 2020 and 2019, 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.

5. CASH AND INVESTMENTS

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

	December 31	
	2020	2019
Internally designated:		
Funded depreciation	**$ 59,374**	$ 35,718
Employee benefit and workers' compensation self-insurance programs	**145,216**	126,730
Professional and general liability insurance program	**653,827**	587,249
Health insurance programs	**1,411,146**	1,313,425
	2,269,563	2,063,122
Externally designated:		
Trusteed assets for capital and debt service payments	**3,445**	236,159
Donor-restricted assets	**584,473**	546,619
	587,918	782,778
Other long-term investments	**5,474,639**	3,402,758
Board-designated, restricted, trusteed and other investments	**8,332,120**	6,248,658
Cash and cash equivalents	**1,541,036**	351,216
	$ 9,873,156	$ 6,599,874

Investments are primarily maintained in MTF and administered using a bank as trustee. As of December 31, 2020, UPMC utilized 155 ongoing external investment managers, including 48 traditional managers, 12 hedge fund managers and 95 private capital managers. UPMC is also invested with an additional 34 legacy private capital and hedge fund managers. The largest allocation to any alternative investment fund is $110,402 as of December 31, 2020. 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. UPMC's unfunded commitments to investments are $297,977 and $321,670 as of December 31, 2020 and 2019, respectively.

(DOLLARS IN THOUSANDS)

As of December 31, 2020 and 2019, respectively, UPMC had $857,235 and $672,951 of alternative investments accounted for under the equity method, which approximates fair value. Investment return from cash and investments is comprised of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Interest income	**$ 78,829**	$ 89,844
Dividend income	**27,068**	34,963
Net realized gains on sales of securities	**271,288**	232,814
	377,185	357,621
Unrealized investment gains	**208,855**	342,555
Derivative contracts mark to market	**(320)**	1,444
	208,535	343,999
Total investment gain	**585,720**	701,620
Traditional investment manager and trustee fees	**(29,780)**	(33,040)
Investment revenue	**$ 555,940**	$ 668,580

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. Liquidity as of December 31, 2020 is shown below:

Liquidity Availability	Cash and Cash Equivalents	Nonalternative Investments	Alternative Investments	Total
Within three days	$ 1,541,036	$ 5,979,972	$ -	$ 7,521,008
Within 30 days	–	143,945	47,719	191,664
Within 60 days	–	-	102,522	102,522
Within 90 days	–	-	272,225	272,225
More than 90 days	–	154,443	1,631,294	1,785,737
Total	$ 1,541,036	$ 6,278,360	$ 2,053,760	$ 9,873,156

6. CREDIT ARRANGEMENTS

UPMC has a revolving line and letter of credit facility (the "Revolving Facility") with an available line of $600,000. The Revolving Facility expires on January 24, 2024. 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 and security interest in the gross revenues of UPMC's parent corporation, UPMC Presbyterian Shadyside, UPMC Magee-Womens Hospital, 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 fixed on the date of the advance based on LIBOR and the reserve requirement on Eurocurrency liabilities.

(DOLLARS IN THOUSANDS)

As of December 31, 2020 and 2019, UPMC had issued $83,920 and $85,353, respectively, of letters of credit under the Revolving Facility. These letters of credit predominantly support the capital requirements of certain insurance subsidiaries. As of December 31, 2020 and 2019, there was $516,080 and $514,647, respectively, available to borrow under the Revolving Facility. No amounts were outstanding under the Revolving Facility as of December 31, 2020 or 2019.

UPMC has credit facilities of $19,000 (increases to $150,000 from May 15 to August 14) and $50,000 with expiration dates in April 2022. Both credit facilities support the Insurance Services Division. As of December 31, 2020 and 2019, there were no draws on either credit facility.

Due to the uncertainty surrounding the governmental reaction to the COVID-19 outbreak, UPMC adopted an interim 2020 financing plan to increase working capital. In part, the interim financings consisted of a $500,000 draw from the Revolving Facility and short-term taxable financings of $320,000 and $100,000 from Royal Bank of Canada and Key Bank, respectively. Borrowings under these facilities originated in late March and early April 2020. As of December 31, 2020, borrowings under each facility have been repaid with the Royal Bank of Canada and Key Bank facilities no longer available for utilization.

Additionally, in February 2020, UPMC executed a taxable financing in the amount of $210,495 from Barclays, and in April 2020, the financing was refinanced with proceeds from the Series 2020B Bonds.

7. LONG-TERM OBLIGATIONS AND DERIVATIVE INSTRUMENTS

Long-term obligations consist of the following:

	December 31	
	2020	2019
Fixed rate revenue bonds	**$ 4,089,762**	$ 3,103,451
Variable rate revenue bonds	**1,126,477**	1,086,618
Finance leases and other	**142,111**	136,773
Par value of long-term obligations	**5,358,350**	4,326,842
Net premium and other	**233,560**	220,397
	5,591,910	4,547,239
Less current portion	**(333,864)**	(316,162)
Total long-term obligations	**$ 5,258,046**	$ 4,231,077

Bonds and leases 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 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 bonds bear interest at fixed coupon rates ranging from 2.00% to 6.00% as of December 31, 2020 and 2019. The average interest costs for the variable rate revenue bonds were 1.66% and 2.31% during the years ended December 31, 2020 and 2019, respectively. Bonds have varying principal payments and final maturities from 2021 through 2050. Certain revenue bonds ($43,584 and $43,573 for 2020 and 2019, respectively) are secured by bond insurance. The bonds contain redemption provisions whereby, at the direction of UPMC, the bonds may be redeemed on various dates as presented within the bond agreements.

(DOLLARS IN THOUSANDS)

Bonds in the aggregate amount of debt outstanding of $5,209,677 and $4,183,840 as of December 31, 2020 and 2019, respectively, are issued under the UPMC MTI. The bonds are secured by a pledge of and security interest in gross revenues. 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 December 31, 2020 and 2019.

Aggregate maturities of long-term obligations for the next five years, assuming no remarketing of UPMC's variable rate debt, indicating the maximum potential payment obligations in these years, are as follows:

2021	$ 333,864
2022	134,759
2023	753,608
2024	145,813
2025	512,662

Interest paid, net of amounts capitalized, on all obligations was $201,413 and $164,066 during the years ended December 31, 2020 and 2019, respectively.

During the year ended December 31, 2020, UPMC issued Series 2020A and 2020B fixed rate bonds in the par amount of $258,630 and $190,955, respectively, with an original issue premium of $22,464 and $16,404, respectively, in order to fund new capital projects and refund existing debt.

Additionally, due to the uncertainty surrounding the governmental reaction to the COVID-19 outbreak, UPMC adopted an interim 2020 financing plan to increase working capital. In part, the interim financings consisted of a $400,000 variable rate taxable financing from Barclays and fixed rate taxable financings of $350,000, $300,000 and $200,000 from Barclays, Wells Fargo and an affiliate of J.P. Morgan, respectively. Borrowings under these facilities originated in late March and early April 2020 and remain outstanding as of December 31, 2020.

UPMC maintains interest rate swap programs on certain of its bonds in order to manage its interest rate risk. To meet this objective and to take advantage of low interest rates, UPMC entered into various 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 swaps convert 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 0.08% to 5.20% (weighted average rate of 0.55%) and from 1.06% to 2.30% (weighted average rate of 1.46%) as of December 31, 2020 and 2019, respectively.

(DOLLARS IN THOUSANDS)

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

				Notional Amount at	
Swap	**Maturity Date**	**UPMC Pays**	**UPMC Receives**	**Dec 31, 2020**	Dec 31, 2019
Floating to fixed	2025	3.60%	68% one-month LIBOR	**$ 60,030**	$ 70,220
Basis	2021	SIFMA Index	67% three-month LIBOR plus .2077%	**7,375**	14,485
Basis	2037	SIFMA Index	67% three-month LIBOR plus .3217%	**46,095**	46,095
Floating to fixed	2024	1.413%	67% one-month LIBOR	**8,000**	8,500
				$ 121,500	$ 139,300

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

	Dec 31, 2020	Dec 31, 2019
Other assets	**$ 544**	$ 532
Long-term obligations	**(6,562)**	(6,230)
	$ (6,018)	$ (5,698)

8. FAIR VALUE MEASUREMENTS

As of December 31, 2020 and 2019, 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, trusteed, and other investments and derivative instruments. Certain of 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, 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 December 31, 2020 and 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 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 consolidated balance sheets that are reported using net asset value ("NAV"). These amounts are not required to be categorized in the fair value hierarchy. The fair value of these investments is based on the net asset value information provided by the general partner. Fair value is based on the proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally one quarter prior to the balance sheet date. Certain of UPMC's alternative investments are utilizing NAV to calculate fair value and are included in other investments in the following tables.

(DOLLARS IN THOUSANDS)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2020

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	$ 655,043	$ 3,166,311	$ -	$ -	$ 3,821,354
Domestic equity	1,059,489	15,061	-	-	1,074,550
International equity	708,306	719	-	-	709,025
Public real estate	70,857	-	-	-	70,857
Long/short equity	31,188	10,423	-	-	41,611
Absolute equity	16,093	-	-	-	16,093
Commodities	6,601	-	-	-	6,601
Derivative instruments	-	544	-	-	544
Securities on loan	251,339	-	-	-	251,339
Securities lending collateral	80,527	-	-	-	80,527
Alternative and other investments at NAV	-	-	-	1,483,455	1,483,455
Total assets measured at fair value on a recurring basis	$ 2,879,443	$ 3,193,058	$ -	$ 1,483,455	$ 7,555,956
LIABILITIES					
Payable under securities lending agreement	$ (80,527)	$ -	$ -	$ -	$ (80,527)
Derivative instruments	-	(6,562)	-	-	(6,562)
Total liabilities measured at fair value on a recurring basis	$ (80,527)	$ (6,562)	$ -	$ -	$ (87,089)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2019

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
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
LIABILITIES					
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)

9. PENSION PLANS

UPMC and its subsidiaries maintain a defined benefit pension plan (the "Plan"), 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 defined contribution plans. 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 $228,120 and $246,262, respectively, for the years ended December 31, 2020 and 2019.

Benefits under the Plan 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 Plan were $31,100 and $162,712 for the years ended December 31, 2020 and 2019, respectively.

To develop the expected long-term rate of return on plan assets assumption, UPMC considers the current level of expected returns on risk-free investments, the historical level of risk premium associated with the other asset classes in which the pension portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the pension portfolio.

On December 7, 2020, a special UPMC fiduciary committee selected Principal Financial Group to assume the pension liability of a combined total of 5,191 retired participants and beneficiaries under the UPMC Western Maryland Retirement Plan (the "WM Plan") and the UPMC Basic Retirement Plan (the "UPMC Basic Plan") (collectively referred to as the "Plan"). These participants and beneficiaries were all actively receiving monthly pension benefits. Principal Financial Group assumed this liability through the issuance of a nonparticipating single premium group annuity contract. A premium of approximately $123,000 was paid to Principal Financial Group from Plan assets on December 10, 2020 (the "Premium Payment"). Total monthly pension benefits of approximately $811, and first due on January 1, 2021, became the responsibility of Principal Financial Group effective December 10, 2020 and thereafter. The portion of the Premium Payment attributable to the WM Plan exceeded the sum of the WM Plan's 2020 service cost and interest cost so this required and resulted in settlement accounting of approximately $1,000. Settlement accounting was not required for the UPMC Basic Plan.

The table below sets forth the accumulated benefit obligation, the change in the projected benefit obligation and the change in the assets of the Plan. The table also reflects the funded status of the Plan as well as recognized and unrecognized amounts in the consolidated balance sheets. As of December 31, 2019, the accrued pension asset is included in other assets on the consolidated balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS)

	Year Ended December 31	
	2020	2019
Accumulated benefit obligation	**$ 2,883,938**	$ 2,379,377
CHANGE IN PROJECTED BENEFIT OBLIGATION		
Projected benefit obligation at beginning of year	**$ 2,485,106**	$ 2,246,134
Pension plans acquired	**359,481**	32,537
Service cost	**148,740**	121,072
Interest cost	**80,069**	93,767
Actuarial loss	**244,363**	149,932
Annuity purchases	**(122,953)**	-
Benefits paid	**(176,567)**	(158,336)
Projected benefit obligation at end of year	**3,018,239**	2,485,106
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	**2,507,361**	2,131,956
Pension plans acquired	**282,196**	28,461
Actual return on plan assets	**325,119**	342,568
Employer contributions	**31,100**	162,712
Annuity purchases	**(122,953)**	-
Benefits paid	**(176,567)**	(158,336)
Fair value of plan assets at end of year	**2,846,256**	2,507,361
Accrued pension liability (asset) at end of year	**$ 171,983**	$ (22,255)

Included in net assets without donor restrictions at December 31, 2020 and 2019 are the following amounts that have not yet been recognized in net periodic pension cost:

	As of December 31	
	2020	2019
Unrecognized prior service credit	**$ 39,319**	$ 44,575
Unrecognized net actuarial loss	**(532,905)**	(471,656)
	$ (493,586)	$ (427,081)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions during 2020 and 2019 include the following:

	Year Ended December 31	
	2020	2019
Current year net actuarial loss	**$ (90,896)**	$ 37,755
Amortization of actuarial loss	**29,647**	39,016
Amortization of prior service credit	**(5,256)**	(5,256)
	$ (66,505)	$ 71,515

(DOLLARS IN THOUSANDS)

No plan assets are expected to be returned to UPMC during the year ending December 31, 2021. The service cost component of net periodic benefit cost is included in salaries, professional fees and employee benefits and all other components of net periodic benefit cost are included in other non-operating gains in the consolidated statements of operations and changes in net assets. The components of net periodic pension cost for the Plan were as follows:

	Year Ended December 31	
	2020	2019
Service cost	**$ 148,740**	$ 121,072
Interest cost	**80,069**	93,767
Expected return on plan assets	**(171,652)**	(154,881)
Recognized net actuarial loss	**29,647**	39,016
Amortization of prior service credit	**(5,256)**	(5,256)
Net periodic pension cost	**$ 81,548**	$ 93,718

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

	December 31	
	2020	2019
Discount rates:		
Used for benefit obligations	**2.49%**	3.17%
Used for net periodic pension cost	**3.17%**	4.31%
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	**7.00%**	7.00%
Interest crediting rate	**2.40%**	2.40%

The assumptions for long-term rate of return are developed using the expected returns of the various asset classes in which the pension invests and the allocations of each asset class with respect to the investment as a whole. The change in discount rate from 3.17% to 2.49% had the net effect of increasing the projected benefit obligation by $199,261 for the year ended December 31, 2020.

The following pension benefit payments are expected to be paid in the years ending December 31:

2021	$ 224,804
2022	223,872
2023	225,433
2024	223,782
2025	223,949
2026-2030	1,055,105

UPMC employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return on 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. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies.

(DOLLARS IN THOUSANDS)

As of December 31, 2020, UPMC employed 167 external investment managers to handle the investment of the assets in the pension portfolio. Of these, 26 managers manage equity investments, 10 manage fixed income investments and 131 managers oversee alternative investment strategies. The largest allocation to any alternative investment manager is $49,902 as of December 31, 2020. UPMC's unfunded commitments to the Plan's investments are $396,013 and $348,810 as of December 31, 2020 and 2019, respectively.

The following is a summary of the pension plan asset allocations at December 31, 2020 and 2019:

	2020	2019	2020 Target
Nonalternative investments:			
Fixed income	**12.2%**	13.9%	13.0%
Domestic equity	**23.2%**	20.4%	23.0%
International equity	**22.4%**	21.9%	22.0%
Total nonalternative investments	**57.8%**	56.2%	58.0%
Real assets:			
Real estate	**2.8%**	2.7%	4.0%
Income opportunities	**2.5%**	2.2%	2.0%
Natural resources	**3.5%**	4.3%	4.0%
Total real assets	**8.8%**	9.2%	10.0%
Alternative investments:			
Long/short equity	**10.1%**	11.9%	10.0%
Absolute return	**5.3%**	6.2%	7.0%
Private equity	**18.0%**	16.5%	15.0%
Total alternative investments	**33.4%**	34.6%	32.0%
Total	**100.0%**	100.0%	100.0%

All of the Plan's assets are measured at fair value, including its alternative investments. The same levels of the fair value hierarchy as described in Note 8 are used to categorize the Plan's 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 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.

(DOLLARS IN THOUSANDS)

The fair values of the Plan's assets at December 31, 2020, by asset category and by the level of inputs used to determine fair value, were as follows:

	Level 1	Level 2	Level 3	NAV	Total
ASSETS					
Equity securities:					
Domestic equity	$ 609,619	$ 3,353	$ -	$ -	$ 612,972
International equity	444,684	-	-	-	444,684
U.S. REITS	32,266	-	-	-	32,266
Fixed income:					
Government securities	-	35,194	-	-	35,194
Bond funds	156,884	-	-	-	156,884
Corporate debt instruments	-	43,171	-	-	43,171
Asset and mortgage-backed securities	3,356	64,405	-	-	67,761
Long/short equity	25,679	-	-	-	25,679
Other investments	-	-	-	1,427,290	1,427,290
Net payables	355	-	-	-	355
Plans' assets at fair value	$ 1,272,843	$ 146,123	$ -	$ 1,427,290	$ 2,846,256

The fair values of the Plan's assets at December 31, 2019, by asset category and by the level of inputs used to determine fair value, were as follows:

	Level 1	Level 2	Level 3	NAV	Total
ASSETS					
Equity securities:					
Domestic equity	$ 464,045	$ 3,202	$ -	$ -	$ 467,247
International equity	409,782	-	-	-	409,782
U.S. REITS	30,150	-	-	-	30,150
Fixed income:					
Government securities	-	27,607	-	-	27,607
Bond funds	190,768	-	-	-	190,768
Corporate debt instruments	-	30,130	-	-	30,130
Asset and mortgage-backed securities	-	73,750	-	-	73,750
Long/short equity	48,788	-	-	-	48,788
Other investments	-	-	-	1,228,491	1,228,491
Net payables	648	-	-	-	648
Plans' assets at fair value	$ 1,144,181	$ 134,689	$ -	$ 1,228,491	$ 2,507,361

(DOLLARS IN THOUSANDS)

10. HEALTH INSURANCE REVENUE AND COSTS

Health care costs were $10,328,949 and $9,072,826, of which $2,413,337 and $2,149,274 were eliminated in consolidation representing medical services performed by other UPMC entities for the years ended December 31, 2020 and 2019, respectively. Such costs are included in insurance claims expense. These costs include estimates of payments to be made on claims reported but not yet processed as of the balance sheet date and estimates of health care services incurred but not reported to the Health Plans. Such estimates include the cost of services that will continue to be incurred 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. UPMC determines the amount of the reserve for incurred but not paid claims by following a detailed actuarial process that uses both historical claim payment patterns as well as emerging medical cost trends to project UPMC's best estimate of reserve for physical health care costs. This process involves formatting of historical paid claims data into claim triangles, which compare claim incurred dates to the dates of claim payments. This information is analyzed to create completion factors that represent the average percentage of total incurred claims that have been paid through a given date after being incurred. Completion factors are applied to claims paid through the period-end date to estimate the ultimate claim expense incurred for the period. Actuarial estimates of incurred but not paid claim liabilities are then determined by subtracting the actual paid claims from the estimate of the ultimate incurred claims.

For the most recent incurred months, the percentage of claims paid for claims incurred in those months is generally low. This makes the completion factors methodology less reliable for such months. Therefore, incurred claims for most recent months are not projected from historical completion and payment patterns; rather, they are projected by estimating the claims expense for those months based on recent claims expense levels and health care trend levels, or trend factors.

While there are many factors that are used as part of the estimation of UPMC's reserve for physical health care costs, the two key assumptions having the most significant impact on UPMC's incurred but not paid claims liability as of December 31, 2020 were the completion and trend factors.

		2020		2019
Reserve for physical health care costs (beginning balance)	$	**493,731**	$	406,040
Add: Provisions for medical costs occurring in:				
Current year		**9,319,976**		8,232,994
Prior year		**(17,285)**		24,210
Net incurred medical costs		**9,302,691**		8,257,204
Deduct: Payments for claims occurring in:				
Current year		**8,623,868**		7,741,510
Prior year		**467,193**		428,003
Net paid medical costs		**9,091,061**		8,169,513
Reserve for physical health care costs (ending balance)	$	**705,361**	$	493,731

The foregoing rollforward shows favorable development of $17,285 and unfavorable development of $24,210 for the years ended December 31, 2020 and 2019, respectively. UPMC regularly reviews and sets assumptions regarding cost trends and utilization when initially establishing a reserve for physical health care costs. UPMC continually monitors and adjusts the reserve and claim expense based on subsequent paid claims activity. If it is determined that UPMC's assumptions regarding cost trends and utilization are materially different from actual results, UPMC's consolidated statement of operations and changes in net assets and consolidated balance sheet could be impacted in future periods. Adjustments of prior year estimates may result in additional claim expense or a reduction of claim expense in the period an adjustment is made.

Incurred claims development for the years ended December 31, 2020, 2019 and 2018 are as follows:

	(Unaudited) December 31, 2018	(Unaudited) December 31, 2019	**December 31, 2020**
December 31, 2018	$ 6,817,032	$ 6,841,242	**$ 6,841,242**
December 31, 2019		8,232,994	**8,215,709**
December 31, 2020			**9,319,976**
			$ 24,376,927

Paid claims development for the years ended December 31, 2020, 2019 and 2018 are as follows:

	(Unaudited) December 31, 2018	(Unaudited) December 31, 2019	**December 31, 2020**
December 31, 2018	$ 6,411,538	$ 6,838,995	**$ 6,841,242**
December 31, 2019		7,741,510	**8,206,456**
December 31, 2020			**8,623,868**
			$ 23,671,566

At December 31, 2020, the total of incurred but not reported ("IBNR") liabilities plus expected development on reported claims and the cumulative number of reported claims for the years ended December 31, 2020, 2019 and 2018 are as follows:

	Total IBNR and Expected Development on Reported Claims	**(Unaudited) Cumulative Number of Reported Claims***
December 31, 2018	$ -	21,571
December 31, 2019	9,253	24,459
December 31, 2020	696,108	23,307
Total	**$ 705,361**	**69,337**

** In thousands*

The cumulative number of reported claims for each claim year has been developed using historical data captured by UPMC's claims payment system and data warehouse.

Net assets without donor restrictions required to meet statutory requirements of the Health Plans were $1,207,408 and $1,088,955 at December 31, 2020 and 2019, respectively.

(DOLLARS IN THOUSANDS)

11. PROFESSIONAL AND GENERAL LIABILITY INSURANCE

UPMC is insured for professional and general liability losses through wholly owned, multiprovider insurance companies (the "Captives"). 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. For those self-insured risks, UPMC has established irrevocable trust funds to pay claims and related costs.

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 actuarial analyses and represents an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of trends in average loss severity and average 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 $479,421 and $393,400, discounted at 0.25% and 2.25% (which approximates the risk-free rates), were recorded as of December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, respectively, $90,939 and $82,991 of the loss reserves are included in current portion of insurance reserves and $388,482 and $310,409 are included in long-term insurance reserves.

The following table provides a rollforward of the reserve balances for professional and general liability costs for the years ended December 31, 2020 and 2019.

	2020	2019
Reserve for professional and general liability costs (beginning balance)	**$ 393,400**	$ 372,767
Add: Provisions for expenses occurring in:		
Current year	**112,556**	95,642
Prior year	**(1,651)**	(3,864)
Change in discount rate	**20,000**	-
Net incurred expenses	**130,905**	91,778
Deduct: Payments for expenses occurring in:		
Current year	**759**	216
Prior year	**84,931**	85,526
Net paid expenses	**85,690**	85,742
Other reserves	**40,806**	14,597
Reserve for professional and general liability costs (ending balance)	**$ 479,421**	$ 393,400

The foregoing rollforward shows favorable development of $1,651 and $3,864 for the years ended December 31, 2020 and 2019, respectively.

(DOLLARS IN THOUSANDS)

The following table provides undiscounted information for claims development for incurred losses and paid claim loss by accident year for the year ended December 31, 2020. The information about incurred and paid claims development for the years ended December 2011 to 2019 is presented as supplementary information. For the reported development, the adequacy of case reserves has been consistent and favorable over time, and there have been no significant changes in the rate at which claims have been reported. For the paid development, the rate of payment of claims has been relatively consistent over time.

DIRECT CLAIM LOSS INCURRED

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Unaudited									
2011	$68,131	$ 72,215	$ 67,932	$ 62,133	$ 63,747	$ 61,841	$ 63,529	$ 64,870	$ 66,032	**$ 65,967**
2012	-	78,082	86,177	81,507	75,921	74,831	77,367	74,732	71,171	**71,345**
2013	-	-	77,146	79,850	72,831	68,055	72,144	68,116	68,529	**69,693**
2014	-	-	-	86,191	84,910	83,562	78,108	75,644	73,443	**74,808**
2015	-	-	-	-	96,593	102,111	89,569	88,801	83,033	**80,946**
2016	-	-	-	-	-	90,844	94,155	91,655	84,615	**73,214**
2017	-	-	-	-	-	-	100,732	99,428	104,403	**103,570**
2018	-	-	-	-	-	-	-	100,781	97,451	**96,836**
2019	-	-	-	-	-	-	-	-	103,995	**106,787**
2020	-	-	-	-	-	-	-	-	-	**108,482**
								Total		**$ 851,648**

DIRECT CLAIM LOSS PAID

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Unaudited									
2011	$ 1,152	$ 3,234	$ 10,556	$ 20,488	$35,104	$39,791	$ 49,012	$54,634	$64,142	**$ 65,092**
2012	-	1,029	6,777	16,334	27,212	47,768	57,588	62,641	66,886	**67,407**
2013	-	-	353	5,861	12,020	28,016	42,775	49,807	56,494	**58,760**
2014	-	-	-	467	7,771	16,949	40,736	48,191	57,372	**61,217**
2015	-	-	-	-	355	16,914	26,838	43,634	58,646	**65,427**
2016	-	-	-	-	-	446	6,375	14,220	27,736	**39,232**
2017	-	-	-	-	-	-	1,610	10,168	27,867	**50,244**
2018	-	-	-	-	-	-	-	251	3,555	**22,235**
2019	-	-	-	-	-	-	-	-	216	**13,936**
2020	-	-	-	-	-	-	-	-	-	**759**
								Total		**$ 444,309**

Net reserves	**$ 407,339**
Other reserves	53,567
Risk retention group	21,306
Discount adjustment	(2,791)
Total reserves	**$ 479,421**

(DOLLARS IN THOUSANDS)

AVERAGE ANNUAL PERCENTAGE PAYOUT OF INCURRED CLAIMS (UNAUDITED)

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
3.8%	9.1%	13.1%	20.5%	19.4%	10.3%	8.9%	5.9%	7.6%	1.4%

In addition, the following table shows the total of IBNR plus expected development on reported claims by accident year and the cumulative number of reported claims by accident year. The cumulative number of reported claims are counted on a per occurrence and per coverage basis. Claim counts include open claims, claims that have been paid and closed, and asserted reported claims that have been closed without the need for any payment.

Accident Year	Incurred Claim Loss and Adjustment Expenses for the Year Ended December 31, 2020	Total Incurred but Not Reported as of December 31, 2020	Cumulative Number of Claims Reported as of December 31, 2020
2011	$ 65,967	$ -	331
2012	71,345	-	316
2013	69,693	372	297
2014	74,808	1,486	283
2015	80,946	4,165	324
2016	73,214	18,429	288
2017	103,570	32,784	297
2018	96,836	52,889	308
2019	106,787	78,647	234
2020	108,482	100,322	73

The methodology for reserving and determining the reserve for loss and loss adjustment expenses, IBNR reserves, considers, among other things, the line of business, the number of years of experience and the age of the experience year being developed.

Loss development factors are also applied to the current evaluations of losses to project the ultimate incurred losses arising from each period of coverage. The selected loss development factors are based on the historical loss experience of UPMC. Therefore, it is assumed that the selected loss development factors coupled with UPMC's experience and actuarial support are appropriate to project the loss development that will be experienced.

The reserve for costs and claims adjustment expenses was based on the best data available to UPMC; however, these estimates are subject to a degree of inherent variability. It is possible that UPMC's actual incurred costs and claim adjustment expenses will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of costs and the related claims adjustment expenses may vary from the estimates included in the consolidated financial statements.

The Medical Care Availability and Reduction of Error ("MCARE") Act was enacted by the legislature of the Commonwealth of Pennsylvania (the "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 Pennsylvania Insurance Commissioner. To date, the Pennsylvania Insurance Commissioner has deferred the change in coverage and eventual phaseout of the MCARE Fund to future years.

(DOLLARS IN THOUSANDS)

12. RELATED-PARTY TRANSACTIONS

UPMC monitors its relationships with related or affiliated entities on an ongoing basis. The most significant of these relationships is with the University in which UPMC purchases and sells certain services from and to the University. With shared academic and research objectives, UPMC provides financial support annually to the University to advance these objectives recognizing the long-term inherent benefit to UPMC's core clinical operations. UPMC looks to the University to lead the efforts related to the academic and research support objectives of UPMC and believes that, while complementary to its mission, the support provided to the University for academics and research is not part of UPMC's core operating activities of providing direct patient care or offering health insurance coverage. For the years ended December 31, 2020 and 2019, UPMC incurred expenses of $227,409 and $212,006, respectively, for academic and research support. Payments to the University that are core to UPMC's missions related to providing clinical care and insurance coverage totaled $229,242 and $196,424 for the years ended December 31, 2020 and 2019, respectively, which includes clinical services rendered by certain faculty and medical residents, facility rental agreements and other related services, and are reflected within operating expense.

13. 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 to 25 years, some of which include options to extend the leases for several periods, and some of which include options to terminate the leases within one year. The components of lease expense were as follows:

	Year Ended December 31	
	2020	2019
Finance lease cost:		
Depreciation	**$ 26,037**	$ 23,666
Interest on lease liabilities	**2,638**	3,108
Total finance lease cost	**28,675**	26,774
Operating lease cost	**142,887**	150,571
Short-term/variable lease cost	**37,596**	41,216
Total	**$ 209,158**	$ 218,561

(DOLLARS IN THOUSANDS)

Supplemental balance sheet information related to leases was as follows:

	Year Ended December 31	
	2020	2019
OPERATING LEASES		
Operating lease right-of-use assets	**$ 1,033,598**	$ 1,080,715
Other current liabilities	**119,135**	123,326
Operating lease liabilities	**963,812**	1,010,207
Total operating lease liabilities	**$ 1,082,947**	$ 1,133,533
FINANCE LEASES		
Property, buildings and equipment, net	**$ 106,846**	$ 84,591
Other current liabilities	**24,245**	22,051
Other noncurrent liabilities	**54,866**	61,816
Total finance lease liabilities	**$ 79,111**	$ 83,867
WEIGHTED AVERAGE REMAINING LEASE TERM		
Operating leases	**12.8 years**	13.4 years
Finance leases	**3.6 years**	2.9 years
WEIGHTED AVERAGE DISCOUNT RATE		
Operating leases	**3.0%**	3.1%
Finance leases	**2.0%**	2.7%

Cash flows in 2020 were materially consistent with expenses. Undiscounted maturities of future lease liabilities were as follows:

For the Years Ended December 31	Operating Leases	Finance Leases
2021	**$ 146,246**	**$ 25,235**
2022	**132,063**	**17,660**
2023	**125,493**	**9,379**
2024	**112,999**	**4,774**
2025	**100,082**	**2,868**
Thereafter	**733,020**	**22,097**
Total undiscounted maturities of lease liabilities	**$ 1,349,903**	**$ 82,013**
Less: discount on lease liabilities	**(266,956)**	**(2,902)**
Total lease liabilities	**$ 1,082,947**	**$ 79,111**

(DOLLARS IN THOUSANDS)

14. 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 consolidated 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.

As of December 31, 2020, the for-profit entities of UPMC had gross federal net operating loss ("NOL") carryforwards of $526,147 (expiring in years 2021 through 2037) and gross state NOL carryforwards of $1,453,810 (expiring in years 2021 through 2040) that are available to offset future taxable income. Utilization of the state NOL carryforwards in any one year is limited to 40% of taxable income on an annual basis per company. During the calendar years ended December 31, 2020 and 2019, UPMC realized tax benefits of $18,210 and $9,354, respectively, from the use of NOL carryforwards.

The following is a reconciliation of income taxes computed at the statutory U.S. federal income tax rate to the actual effective income tax expense:

Years Ended December 31	**2020**	2019
Taxes computed at the federal rate	**$ 41,783**	$ 8,322
State income taxes, net of federal tax benefit	**1,052**	3,905
Valuation allowance	**(10,773)**	(7,140)
Permanent differences	**(28,687)**	174
Other items, net	**1,719**	(361)
Income tax expense	**$ 5,094**	$ 4,900

The following table presents deferred tax assets as of December 31, 2020 and 2019:

	2020	2019
Deferred tax assets:		
Net operating losses	**$ 226,909**	$ 250, 459
Accrued benefits	**17,439**	13,611
Other	**17,472**	19,695
	261,820	283,765
Less valuation allowance	**(261,820)**	(283,765)
	$ -	$ -

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 December 31, 2020 and 2019, there were no uncertain tax positions. Certain of UPMC's subsidiaries are subject to taxation in the United States and foreign jurisdictions. As of December 31, 2020, UPMC's returns for the fiscal year ended June 30, 2017, the short period ended December 31, 2017 and the calendar years ended December 31, 2018 and 2019 are open for examination by the various taxing authorities.

(DOLLARS IN THOUSANDS)

15. FUNCTIONAL EXPENSES

UPMC provides general health care services primarily to residents within its geographic locations and supports related research and education programs. For the years ended December 31, 2020 and 2019 (reclassifications were made to prior year to conform to current year presentation), expenses related to providing these services were as follows:

FOR THE YEAR ENDED DECEMBER 31, 2020

	Hospital & health care services	Insurance services	Academic & research activities	UPMC Enterprises activity	Admin support	Total
Salaries, professional fees and employee benefits	**$ 6,356,072**	**$ 511,334**	**$ -**	**$ -**	**$ 911,044**	**$ 7,778,450**
Insurance claims expense	**-**	**7,915,612**	**-**	**-**	**-**	**7,915,612**
Supplies, purchased services and general	**4,529,534**	**847,744**	**-**	**-**	**500,115**	**5,877,393**
Depreciation and amortization	**506,891**	**14,597**	**-**	**-**	**164,097**	**685,585**
Academic and research support provided	**-**	**-**	**227,409**	**-**	**-**	**227,409**
Income tax expense	**-**	**-**	**-**	**-**	**5,094**	**5,094**
Interest expense	**177,244**	**-**	**-**	**-**	**-**	**177,244**
Portfolio company and development expense	**-**	**-**	**116,889**	**74,416**	**-**	**191,305**
	$ 11,569,741	**$ 9,289,287**	**$ 344,298**	**$ 74,416**	**$ 1,580,350**	**$ 22,858,092**

FOR THE YEAR ENDED DECEMBER 31, 2019

	Hospital & health care services	Insurance services	Academic & research activities	UPMC Enterprises activity	Admin support	Total
Salaries, professional fees and employee benefits	$ 5,998,433	$ 462,795	$ -	$ -	$ 838,346	$ 7,299,574
Insurance claims expense	-	6,923,552	-	-	-	6,923,552
Supplies, purchased services and general	4,356,857	705,207	-	-	447,256	5,509,320
Depreciation and amortization	474,166	15,073	-	-	148,960	638,199
Academic and research support provided	-	-	212,006	-	-	212,006
Income tax expense	-	-	-	-	4,900	4,900
Interest expense	151,536	-	-	-	-	151,536
Portfolio company and development expense	-	-	127,862	83,995	-	211,857
	$ 10,980,992	$ 8,106,627	$ 339,868	$ 83,995	$ 1,439,462	$ 20,950,944

(DOLLARS IN THOUSANDS)

16. UPMC ENTERPRISES ACTIVITY

UPMC Enterprises conducts research, development and innovation activities on behalf of UPMC primarily focused on technologies for use in the health care industry to lower costs and improve care; such activities are expensed as incurred. From time to time, UPMC invests in companies that are developing technologies that align with its strategic imperatives, including companies that are not yet at the commercialization stage. UPMC's level of investment is dependent on numerous strategic considerations and may provide either a controlling or a non-controlling ownership interest. UPMC Enterprises also seeks partnerships with external companies to accelerate commercial growth of innovation activities, which may include the sale of internally developed technology solutions. 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; such activities are expensed as incurred.

UPMC Enterprises activity is comprised of the following for the years ended December 31:

	2020	2019
Technology research and development costs	**$ (70,962)**	$ (81,432)
Investments in translational science	**(45,927)**	(46,430)
Revenue from portfolio companies with controlling interest	**36,521**	28,013
Expenses of portfolio companies with controlling interest	**(77,137)**	(80,723)
Net income (loss) from non-controlling interest in portfolio companies	**2,721**	(3,272)
Net gains from sale of technology-related assets	**16,994**	47,401
UPMC Enterprises activity	**$ (137,790)**	$ (136,443)

17. CONTINGENCIES

On October 9, 2012, UPMC received a Civil Investigative Demand ("CID") from the Department of Justice ("DOJ") that sought records relating to 40 surgical procedures performed between January 25, 2008 and June 24, 2010. UPMC timely responded to that CID. In November 2013, the DOJ advised UPMC that the CID had been served as part of the DOJ's investigation of allegations asserted by Relators in a federal qui tam lawsuit filed under seal. On July 27, 2016, the DOJ announced that it had reached an agreement with UPMC to settle certain allegations that UPMC had violated the False Claims Act for approximately $2,500. UPMC admitted no liability in settling those claims. The DOJ declined to intervene in the remaining allegations of the Relators' lawsuit, which was also unsealed on July 27, 2016. In their Second Amended Complaint against UPMC and UPP, Inc., Relators allege that UPMC violated the False Claims Act by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. On January 28, 2020, UPMC answered the Second Amended Complaint. Discovery is proceeding. The outcome and ultimate effect on UPMC's consolidated 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 ("IPPCA") status of UPMC, UPMC Health Coverage, Inc. and UPMC Susquehanna (collectively, "UPMC"). On December 21, 2020, an Arbitrator entered a Final Determination in UPMC's favor, finding no violation of the IPPCA and ordering the Plaintiffs to pay the costs of the arbitration. On January 19, 2021, the Plaintiffs filed an appeal to the Philadelphia Court of Common Pleas. The outcome and ultimate effect on UPMC's consolidated financial statements cannot be determined at this time.

On July 29, 2019, UPMC received two grand jury subpoenas and an unexecuted search warrant from the DOJ seeking various records from one of UPMC's clinical departments. UPMC received a CID 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 consolidated financial statements 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 DOJ filed a notice of its decision not to intervene in the matter. Among other things, the Relator alleges 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 consolidated financial statements cannot be determined at this time.

On or about December 15, 2020, a current employee filed a claim against UPMC, the University of Pittsburgh and other defendants, contending that the Defendants retaliated against him for authoring an article asserting that the medical profession discriminates against applicants from underrepresented races and ethnicities. UPMC intends to zealously defend against the allegations in the Complaint. The ultimate outcome and effect on UPMC's consolidated financial statements cannot be determined at this time.

18. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to December 31, 2020 through March 1, 2021, the date the consolidated financial statements of UPMC were available to be issued. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.