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

FOR THE PERIOD ENDED DECEMBER 31, 2023

UPMC
LIFE CHANGING MEDICINE

Ernst & Young LLP
2100 One PPG Place
Pittsburgh, PA 15222

Tel: +1 412 644 7800
Fax: +1 412 644 0477
ey.com

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023, 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 February 27, 2024 (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.

Supplemental Information

The accompanying supplemental consolidating balance sheet as of December 31, 2023 and supplemental consolidating statement of operations for the year ended December 31, 2023 have been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Such information is the responsibility of the Company's management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter 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 matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Explicit Price Concessions for Revenue Recognition

Description of the Matter	For the year ended December 31, 2023, the Company's net patient service revenue was $11.2 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. Auditing management's estimates of explicit 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 price concessions. For example, we tested management's internal controls over the key data inputs to the explicit price concessions model, significant assumptions underlying management's models, and management's internal controls over retrospective hindsight reviews of historical reserve accuracy. To test the estimated explicit 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 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.

Ernst + Young LLP

We have served as the Company's auditor since 1994.
February 27, 2024

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS)

	As of December 31, 2023	As of December 31, 2022
CURRENT ASSETS		
Cash and cash equivalents	$ 1,104,198	$ 953,980
Patient accounts receivable	1,587,557	1,418,566
Insurance and other receivables	1,789,429	1,933,177
Other current assets	717,144	588,555
Total current assets	5,198,328	4,894,278
Board-designated, restricted, trusteed and other investments	8,442,381	7,704,484
Beneficial interests in foundations and trusts	726,515	667,380
Property, buildings and equipment:		
Land and land improvements	572,650	558,402
Buildings and fixed equipment	9,491,782	8,651,098
Movable equipment	3,606,010	3,372,982
Finance Leases	186,957	222,178
Construction in progress	490,272	901,389
	14,347,671	13,706,049
Less allowance for depreciation	(7,723,246)	(7,186,157)
	6,624,425	6,519,892
Operating lease right-of-use assets	738,064	796,886
Other assets	917,022	744,434
Total assets	$ 22,646,735	$ 21,327,354
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 926,524	$ 834,097
Accrued salaries and related benefits	1,060,393	1,024,110
Current portion of insurance reserves	1,301,619	1,155,133
Current portion of long-term obligations	171,239	369,443
Other current liabilities	878,322	939,010
Total current liabilities	4,338,097	4,321,793
Long-term obligations	6,623,508	5,152,164
Long-term insurance reserves	446,567	458,285
Operating lease noncurrent liabilities	707,447	770,766
Other noncurrent liabilities	546,479	717,464
Total liabilities	12,662,098	11,420,472
Net assets without donor restrictions	8,730,411	8,737,069
Net assets with donor restrictions	1,254,226	1,169,813
Total net assets	9,984,637	9,906,882
Total liabilities and net assets	$ 22,646,735	$ 21,327,354

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(DOLLARS IN THOUSANDS)

	Years Ended December 31 2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net patient service revenue	$ **11,176,052**	$ 10,240,253
Insurance enrollment revenue	**14,281,945**	13,036,362
Other revenue	**2,242,491**	2,255,388
Total operating revenues	**27,700,488**	25,532,003
Salaries, professional fees and employee benefits	**9,656,301**	9,075,804
Insurance claims expense	**10,123,647**	8,911,760
Supplies, purchased services and general	**7,426,217**	6,688,542
Depreciation and amortization	**692,658**	693,757
Total operating expenses	**27,898,823**	25,369,863
Operating (loss) income	**(198,335)**	162,140
Academic and research support provided	**(247,300)**	(242,000)
Income tax and other non-operating activities	**6,418**	116,140
After-tax (loss) income	$ **(439,217)**	$ 36,280
Investing and financing activities:		
Investment gain (loss)	**746,993**	(748,183)
Interest expense	**(205,396)**	(157,959)
Gain on extinguishment of debt	**1,274**	14,409
UPMC Enterprises activity:		
Portfolio company revenue and net gains from sales	**122,876**	11,470
Portfolio company and research and development expense	**(241,009)**	(198,172)
Gain (loss) from investing and financing activities	**424,738**	(1,078,435)
Excess of expenses over revenues	**(14,479)**	(1,042,155)
Net activity attributable to noncontrolling interest	**16,175**	(9,167)
Excess of expenses over revenues attributable to controlling interest	**(30,654)**	(1,032,988)
Net change in pension liability and other	**23,996**	(113,640)
Change in net assets without donor restrictions	$ **(6,658)**	$ (1,146,628)
NET ASSETS WITH DONOR RESTRICTIONS		
Change in beneficial interests in foundations and trusts	**59,135**	(116,399)
Other changes in net assets with donor restrictions	**25,278**	(108,451)
Change in net assets with donor restrictions	**84,413**	(224,850)
Change in total net assets	**77,755**	(1,371,478)
Net assets, beginning of period	**9,906,882**	11,278,360
Net assets, end of period	$ **9,984,637**	$ 9,906,882

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	Years Ended December 31	
	2023	2022
OPERATING ACTIVITIES		
Increase (decrease) in total net assets	**$ 77,755**	$ (1,371,478)
Adjustments to reconcile change in total net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**692,658**	693,757
Change in beneficial interest in foundations and trusts	**(59,135)**	116,399
Restricted contributions and investment (gains) losses	**(25,278)**	13,850
Unrealized (gains) losses on investments	**(240,916)**	842,834
Realized (gains) losses on investments	**(332,891)**	28,000
Purchases of non-alternative investments	**(8,898,990)**	(8,080,807)
Sales of non-alternative investments	**8,822,079**	9,251,039
Changes in operating assets and liabilities:		
Accounts receivable	**(25,243)**	(312,524)
Other current assets	**(122,776)**	3,015
Accounts payable and accrued liabilities	**128,710**	111,654
Insurance reserves	**134,768**	165,818
Other current liabilities	**(60,688)**	(632,771)
Other noncurrent assets and liabilities	**(234,304)**	55,516
Other operating changes	**(29,561)**	114,263
Net cash (used in) provided by operating activities	**(173,812)**	998,565
INVESTING ACTIVITIES		
Purchase of property, buildings and equipment	**(719,469)**	(964,243)
UPMC Enterprises investments in non-consolidated entities	**(57,500)**	(55,039)
Cash used for acquisitions	**(247,626)**	-
Net change in investments designated as nontrading	**(30,676)**	35,143
Purchases of alternative investments	**(256,345)**	(212,346)
Sales of alternative investments	**255,629**	255,969
Net change in other assets	**93,848**	40,793
Net cash used in investing activities	**(962,139)**	(899,723)
FINANCING ACTIVITIES		
Repayments of long-term obligations	**(554,464)**	(1,113,374)
Borrowings of long-term obligations	**1,841,551**	1,051,986
Restricted contributions and investment gains (losses)	**25,278**	(13,850)
Consideration paid to noncontrolling interest entities	**(26,196)**	-
Net cash provided by (used in) financing activities	**1,286,169**	(75,238)
Net change in cash and cash equivalents	**150,218**	23,604
Cash and cash equivalents, beginning of period	**953,980**	930,376
Cash and cash equivalents, end of period	**$ 1,104,198**	$ 953,980
SUPPLEMENTAL INFORMATION		
Finance lease obligations incurred to acquire assets	**$ 24,209**	$ 29,757

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 of America ("GAAP") and include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and investments, which are so near to maturity 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. Payment under these programs for all payers is based on a combination of prospectively determined rates, discounted charges and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents. 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, 2023 or 2022.

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, 2023 and 2022 is as follows:

Years Ended December 31	**2023**	2022
Commercial	**37%**	38%
Medicare	**41%**	39%
Medical Assistance	**16%**	16%
Self-pay/other	**6%**	7%
	100%	100%

(DOLLARS IN THOUSANDS)

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

Insurance Enrollment Revenue

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

Insurance enrollment revenues include premiums that are collected from companies, individuals, and government entities. Laws and regulations governing the Medicare and Medical Assistance programs are complex and subject to interpretation. 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. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collectability is probable. Revenue recognized related to governmental funding in response to the COVID-19 pandemic is captured in other revenue.

Receivables

Concentrations of patient accounts receivable at December 31, 2023 and 2022 include:

Years Ended December 31	**2023**	2022
Commercial	**44%**	44%
Medicare	**32%**	30%
Medical Assistance	**11%**	11%
Self-pay/other	**13%**	15%
	100%	100%

Insurance and 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 gain (loss) 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 gain (loss) 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 Master Trust Fund ("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, 2023 generally reflect the partnership activity experienced during the year ended September 30, 2023. 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 (loss) gain 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 $8,277,332 and $7,502,345 at December 31, 2023 and 2022, 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, 2023 and 2022, is $244 and $732, 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, 2023 and 2022, securities loaned to various parties, of which UPMC maintains ownership, were $173,154 and $203,429, respectively, and total collateral (cash and noncash) received related to the securities loaned was $181,122 and $212,925, 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 $726,515 and $667,380 and the net assets with donor restrictions of consolidated foundations of $97,477 and $53,208 as of December 31, 2023 and 2022, 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, 2023 and 2022 was $691,387 and $692,765, 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. Assets acquired under operating lease arrangements 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, 2023, unless it is probable that the option will be exercised. During the year ended December 31, 2022, due to changes in the nature and extent as to how specific leased locations are utilized, certain renewal options, previously deemed probable, were deemed to be unlikely to be exercised. As a result, a reduction of both the right-of-use-asset and lease liability totaling $118,557 was recorded as of December 31, 2022. No such reduction was recorded for the year ended December 31, 2023.

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. For the year ended December 31, 2022, an impairment for certain right-of-use assets was recorded in the amount of $75,784. No impairment was recorded for the year ended December 31, 2023.

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. Other assets includes approximately $370,404 and $392,787 at December 31, 2023 and 2022, 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, 2023 and 2022, goodwill of $417,701 and $266,799 respectively, is recorded in UPMC's consolidated balance sheets as other assets. In March 2023, UPMC acquired the Sports Surgery Clinic in Dublin, Ireland which approximated $141,000 of additional goodwill recognized in the consolidated balance sheet. See footnote 2 for further disclosure.

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, 2023 and 2022, 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, 2023 and 2022 are designated as hedging instruments and, as such, changes in fair value are recognized in investing and financing activities as investment (loss) gain in the 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 $403,884 and $379,125 of net assets held in perpetuity and $850,342 and $790,688 of temporary restricted net assets at December 31, 2023 and 2022, respectively. 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.

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.

Reclassifications

For the year ended December 31, 2022, UPMC included lease impairment expense of $75,784 as a separate line on its consolidated statements of operations and changes in net assets. For the year ended December 31, 2023, UPMC reclassified this prior year amount and included it in supplies, purchased services and general for consistent presentation with the current year.

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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.

2. SIGNIFICANT TRANSACTIONS

In February 2023, CarepathRx, an equity investment of UPMC Chartwell, executed an agreement where a portion of its business was sold to a third party. UPMC Chartwell's equity investment in CarepathRx resulted in a gain of approximately $163,000 in other revenues, of which approximately $20,000 was attributed to noncontrolling interest, in its consolidated statement of operations and changes in net assets for the year ended December 31, 2023, in accordance with ASC 810, *Consolidation*.

In March 2023, UPMC acquired the Sports Surgery Clinic ("SSC") in Dublin, Ireland. As UPMC's fourth hospital in Ireland, the transaction is intended to further UPMC's commitment to clinical excellence in this region of the world. As a result of the acquisition, UPMC acquired approximately $106,000 of total assets, consisting of $100,000 of property, plant and equipment and $6,000 of other assets. Total consideration paid by UPMC approximated $247,000 and resulted in approximately $141,000 of additional goodwill in the consolidated balance sheet as of December 31, 2023. UPMC applies the guidance set forth in ASC 805 *Business Combinations* for affiliations and acquisitions and as such will continue to assess throughout the remainder of the year the fair value, as of the acquisition date, of any assets and liabilities acquired.

In response to the COVID-19 pandemic, the federal government enacted several programs that provide, among other funding sources, relief funds to hospitals and other health care providers on the front lines of the COVID-19 response. This funding has been used to support health care related expenses or lost revenue attributable to COVID-19. For the years ended December 31, 2023 and December 31, 2022, UPMC recognized approximately $48,000 and $234,000, respectively, within operating income.

3. NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2023, UPMC adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to certain qualifying insurance receivables and reinsurance recoveries and receivables. This accounting pronouncement did not have a material impact on the consolidated financial statements as UPMC already utilizes an expected loss methodology on its qualifying receivables.

(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 $122,140 and $108,905 for the years ended December 31, 2023 and 2022, 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	
	2023	2022
Internally designated:		
Health insurance programs	**$ 1,675,823**	$ 1,689,382
Professional and general liability insurance program	**676,371**	625,533
Employee benefit and workers' compensation self-insurance programs	**127,396**	121,798
	2,479,590	2,436,713
Externally designated:		
Trusteed assets for capital and debt service payments	**15,667**	3,533
Donor-restricted assets	**490,379**	476,322
	506,046	479,855
Other long-term investments	**5,456,745**	4,787,916
Board-designated, restricted, trusteed and other investments	**8,442,381**	7,704,484
Cash and cash equivalents	**1,104,198**	953,980
	$ 9,546,579	$ 8,658,464

Investments are primarily maintained in MTF and administered using a bank as trustee. As of December 31, 2023, UPMC utilized 178 ongoing external investment managers, including 44 traditional managers, 18 hedge fund managers and 116 private capital managers. UPMC is also invested with an additional 32 legacy private capital and hedge fund managers. The largest allocation to any alternative investment fund is $101,595 as of December 31, 2023. 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 $460,741 and $525,148 as of December 31, 2023 and 2022, respectively. Unfunded commitments may be called by managers pursuant to the terms of each specific fund's documents, which allow capital to be called during a fund's investment period for new investments. While terms vary, investment periods are generally within six years.

(DOLLARS IN THOUSANDS)

Investment return from cash and investments is comprised of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Interest income	**$ 155,674**	$ 109,917
Dividend income	**54,460**	44,008
Traditional investment manager and trustee fees	**(35,235)**	(34,002)
Net realized gains (losses) on sales of securities	**332,891**	(28,000)
	507,790	91,923
Unrealized investment gains (losses)	**240,916**	(842,834)
Derivative contracts mark to market	**(1,713)**	2,728
	239,203	(840,106)
Investment gain (loss)	**$ 746,993**	$ (748,183)

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, 2023 is shown below:

Liquidity Availability	Cash and Cash Equivalents	Nonalternative Investments	Alternative Investments	Total
Within three days	$ 1,104,198	$ 5,417,769	$ -	$ 6,521,967
Within 30 days	–	76,201	90,700	166,901
Within 60 days	–	-	-	-
Within 90 days	–	-	423,776	423,776
More than 90 days	–	336,320	2,097,615	2,433,935
Total	$ 1,104,198	$ 5,830,290	$ 2,612,091	$ 9,546,579

6. CREDIT ARRANGEMENTS

UPMC has a revolving line and letter of credit facility (the "Revolving Facility") with a capacity of $1,000,000. The Revolving Facility expires on May 24, 2028. 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. At the option of UPMC, advances under the Revolving Facility bear interest on the basis of the prime rate, federal funds effective rate, or the secured overnight financing rate ("SOFR").

As of December 31, 2023 and 2022, UPMC had issued $130,080 and $137,778, 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, 2023 and 2022, there was $869,920 and $462,222, respectively, available to borrow under the Revolving Facility. No amounts were outstanding under the Revolving Facility as of December 31, 2023 and 2022.

In support of the Insurance Services Division, UPMC has credit facilities of $350 million and $25 million, the latter of which temporarily increases each year to $250 million from May 1st to August 31st. The credit facilities expire in May 2026 and May 2027, respectively. As of December 31, 2023, these credit facilities were undrawn.

(DOLLARS IN THOUSANDS)

7. LONG-TERM OBLIGATIONS AND DERIVATIVE INSTRUMENTS

Long-term obligations consist of the following:

	December 31	
	2023	2022
Fixed rate revenue bonds	**$ 5,369,977**	$ 4,452,224
Variable rate revenue bonds	**896,291**	673,157
Finance leases and other	**273,750**	144,350
Par value of long-term obligations	**6,540,018**	5,269,731
Net premium and other	**254,729**	251,876
	6,794,747	5,521,607
Less current portion	**(171,239)**	(369,443)
Total long-term obligations	**$ 6,623,508**	$ 5,152,164

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 1.80% to 6.00% as of December 31, 2023 and 2022. The average interest costs for the variable rate revenue bonds were 4.41% and 2.02% during the years ended December 31, 2023 and 2022, respectively. Bonds have varying principal payments and final maturities from 2024 through 2053. Certain revenue bonds ($35,872 and $43,606 for 2023 and 2022, 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.

Bonds in the aggregate of $6,266,024 and $5,124,649 as of December 31, 2023 and 2022, respectively, are issued under the 2007 UPMC MTI. The bonds are secured by a pledge of and security interest in gross revenues. Certain amounts borrowed under the 2007 UPMC 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, 2023 and 2022.

(DOLLARS IN THOUSANDS)

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:

2024	$ 171,239
2025	530,064
2026	592,614
2027	268,390
2028	173,779

Interest paid, net of amounts capitalized, on all obligations was $237,797 and $193,283 during the years ended December 31, 2023 and 2022, respectively.

During the year ended December 31, 2023, UPMC issued the tax-exempt Series 2023A, 2023B, 2023C, and 2023D bonds, as well as the taxable Series 2023 bonds in the amounts of $445,000, $89,000, $36,000, $250,000, and $800,000, respectively. These bonds refunded certain indebtedness, fund capital projects and support working capital. Details of the offerings can be found in the official statements for each issue. Additionally, UPMC incurred $164,000 of indebtedness relating to its international operations. During the year ended December 31, 2022, UPMC issued the tax-exempt Series 2022A and 2022B fixed rate bonds in the par amount of $212,430 and $172,195, respectively, in order to fund new capital projects and refund existing debt. Concurrently, UPMC remarketed the tax-exempt Series 2017C and 2017D-2 bonds.

UPMC maintains interest rate swap programs on certain of its debt in order to manage its interest rate risk. As of December 31, 2023, and December 31, 2022, UPMC is party to a floating-to-fixed interest rate swap where UPMC receives 68% of a one-month index rate and pays a fixed rate of 3.60% on a notional amount of $25,965 and $37,935, respectively. As of December 31, 2023, and December 31, 2022, UPMC is also party to a basis swap where UPMC receives 67% of a three-month index rate plus .3217% and pays Securities Industry and Financial Markets Association ("SIFMA") rates on a notional amount of $30,525 and $38,450, respectively. From origination through June 30, 2023, London interbank offered rate ("LIBOR") served as the receipt index for both agreements. Effective July 1, 2023, LIBOR ceased to be recognized as a representative index whereupon SOFR was selected as the replacement index. The aforementioned agreements are scheduled to mature in 2025 and 2037, respectively, and are carried as long-term obligations with a combined market value of ($244) as of December 31, 2023, and ($732) as of December 31, 2022.

8. FAIR VALUE MEASUREMENTS

As of December 31, 2023 and 2022, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents, certain board-designated, restricted, trusteed, and other investments and derivative instruments. Certain alternative investments are measured using the equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, includes:

Level 1: Quoted prices for identical assets or liabilities in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables represent UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022. 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. As of December 31, 2023 and 2022, respectively, UPMC had $1,269,247 and $1,156,119 of alternative investments accounted for under the equity method, which approximates fair value.

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 investments, including both alternative and nonalternative investments, are utilizing NAV to calculate fair value and are included in other investments in the following tables.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2023

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	$ 268,853	$ 3,046,146	$ -	$ -	$ 3,314,999
Domestic equity	938,560	10,420	-	-	948,980
International equity	809,547	-	-	-	809,547
Public real estate	107,146	-	-	-	107,146
Long/short equity	25,411	182,487	-	-	207,898
Absolute equity	(231)	63,581	-	-	63,350
Securities on loan	173,154	-	-	-	173,154
Securities lending collateral	95,382	-	-	-	95,382
Alternative and other investments at NAV	-	-	-	1,548,060	1,548,060
Total assets measured at fair value on a recurring basis	$ 2,417,822	$ 3,302,634	$ -	$ 1,548,060	$ 7,268,516
LIABILITIES					
Payable under securities lending agreement	$ (95,382)	$ -	$ -	$ -	$ (95,382)
Derivative instruments	-	(244)	-	-	(244)
Total liabilities measured at fair value on a recurring basis	$ (95,382)	$ (244)	$ -	$ -	$ (95,626)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2022

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	$ 853,228	$ 1,723,814	$ -	$ -	$ 2,577,042
Domestic equity	1,275,130	8,700	-	-	1,283,830
International equity	696,429	541	-	-	696,970
Public real estate	103,870	-	-	-	103,870
Long/short equity	61,389	13,657	-	-	75,046
Absolute equity	51,241	-	-	-	51,241
Securities on loan	203,429	-	-	-	203,429
Securities lending collateral	116,000	-	-	-	116,000
Alternative and other investments at NAV	-	-	-	1,556,937	1,556,937
Total assets measured at fair value on a recurring basis	$ 3,360,716	$ 1,746,712	$ -	$ 1,556,937	$ 6,664,365
LIABILITIES					
Payable under securities lending agreement	$ (116,000)	$ -	$ -	$ -	$ (116,000)
Derivative instruments	-	(732)	-	-	(732)
Total liabilities measured at fair value on a recurring basis	$ (116,000)	$ (732)	$ -	$ -	$ (116,732)

(DOLLARS IN THOUSANDS)

9. PENSION PLANS

UPMC and its subsidiaries maintain defined benefit pension plans (the "Plans"), defined contribution plans and nonqualified pension plans that cover substantially all of UPMC's employees. 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. The total expense within the performance indicator relating to the aforementioned pension plans was $304,587 and $213,822, respectively, for the years ended December 31, 2023 and 2022.

Benefits under the Plans vary and are generally based upon the employee's earnings and years of participation. It is UPMC's policy to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and the Pension Protection Act of 2006. For the years ended December 31, 2023 and 2022, contributions made to the Plans were $158,101 and $0, 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.

The table below sets forth the accumulated benefit obligation, the change in the projected benefit obligation and the change in the assets of the Plans. The table also reflects the funded status of the Plans as well as recognized and unrecognized amounts in the consolidated balance sheets. As of December 31, 2023 and December 31, 2022, the pension liability is included in other noncurrent liabilities on the consolidated balance sheets.

	Year Ended December 31	
	2023	2022
Accumulated benefit obligation	**$ 2,843,028**	$ 2,713,380
CHANGE IN PROJECTED BENEFIT OBLIGATION		
Projected benefit obligation at beginning of year	**$ 2,821,194**	$ 3,057,429
Service cost	**158,126**	179,540
Interest cost	**148,925**	89,701
Actuarial loss (gain)	**35,763**	(302,638)
Benefits paid	**(189,385)**	(202,838)
Projected benefit obligation at end of year	**2,974,623**	2,821,194
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	**2,627,693**	3,087,194
Actual return on plan assets	**199,348**	(256,663)
Employer contributions	**158,101**	-
Benefits paid	**(189,385)**	(202,838)
Fair value of plan assets at end of year	**2,795,757**	2,627,693
Pension liability at end of year	**$ 178,866**	$ 193,501

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS)

Included in net assets without donor restrictions at December 31, 2023 and 2022 are the following amounts that have not yet been recognized in net periodic pension cost:

	As of December 31			
		2023		2022
Unrecognized prior service credit	**$**	**23,551**	$	28,807
Unrecognized net actuarial loss		**(406,870)**		(405,972)
	$	**(383,319)**	$	(377,165)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions during 2023 and 2022 include the following:

	Year Ended December 31			
		2023		2022
Current year net actuarial loss	**$**	**(15,481)**	$	(162,408)
Amortization of actuarial loss		**14,583**		5
Amortization of prior service credit		**(5,256)**		(5,256)
	$	**(6,154)**	$	(167,659)

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 expenses in the consolidated statements of operations and changes in net assets. The components of net periodic pension cost for the Plans were as follows:

	Year Ended December 31			
		2023		2022
Service cost	**$**	**158,126**	$	179,540
Interest cost		**148,925**		89,701
Expected return on plan assets		**(179,066)**		(208,383)
Unrecognized net actuarial loss		**14,583**		5
Amortization of prior service credit		**(5,256)**		(5,256)
Net periodic pension cost	**$**	**137,312**	$	55,607

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

	As of December 31	
	2023	2022
Discount rates:		
Used for benefit obligations	**5.02%**	5.20%
Used for net periodic pension cost	**5.20%**	2.87%
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:		
Used for benefit obligations	**4.02%**	4.20%
Used for net periodic pension cost	**4.20%**	2.40%

(DOLLARS IN THOUSANDS)

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 5.20% to 5.02% had the net effect of increasing the projected benefit obligation by $45,271 for the year ended December 31, 2023. The change in the interest crediting rate from 4.20% to 4.02% decreased the projected benefit obligation by $31,598 for the year ended December 31, 2023.

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

2024	$ 235,966
2025	244,862
2026	248,877
2027	251,154
2028	250,526
2029-2033	1,235,996

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.

As of December 31, 2023, UPMC employed 183 external investment managers to handle the investment of the assets in the pension portfolio. Of these, 22 managers manage equity investments, 7 manage fixed income investments and 154 managers oversee alternative investment strategies. The largest allocation to any alternative investment manager is $45,900 as of December 31, 2023. Unfunded commitments due to investments within the Plans, funded with Plan assets, are $288,169 and $338,338 as of December 31, 2023 and 2022, respectively. Unfunded commitments may be called by managers pursuant to the terms of each specific fund's documents, which allow capital to be called during a fund's investment period for new investments. While terms vary, investment periods are generally within six years.

(DOLLARS IN THOUSANDS)

The following is a summary of the pension plan asset allocations at December 31, 2023 and 2022:

	2023	2022	2023 Target
Nonalternative investments:			
Fixed income	**11.3%**	11.7%	13.0%
Domestic equity	**20.7%**	16.8%	25.0%
International equity	**16.2%**	16.2%	19.0%
Total nonalternative investments	**48.2%**	44.7%	57.0%
Real assets:			
Real estate	**5.2%**	5.0%	4.0%
Income opportunities	**2.0%**	1.7%	2.0%
Natural resources	**5.0%**	5.4%	4.0%
Total real assets	**12.2%**	12.1%	10.0%
Alternative investments:			
Long/short equity	**9.7%**	11.4%	11.0%
Absolute return	**7.2%**	7.3%	7.0%
Private equity	**22.7%**	24.5%	15.0%
Total alternative investments	**39.6%**	43.2%	33.0%
Total	**100.0%**	100.0%	100.0%

All of the Plans' assets are measured at fair value, including its alternative investments. The same levels of the fair value hierarchy as described in Note 8 are used to categorize the Plans' assets. Corporate debt instruments and fixed income/bonds are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The fair value of common/collective trust funds is determined by the issuer sponsoring such funds by dividing the fund's net assets at fair value by its units outstanding at the valuation dates. Partnership interests are valued using 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 Plans' assets at December 31, 2023, 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	$ 506,632	$ 631	$ -	$ -	$ 507,263
International equity	316,023	-	-	-	316,023
International REITS	777	-	-	-	777
U.S. REITS	42,496	1,143	-	-	43,639
Fixed income:					
Government securities	(245)	105,496	-	-	105,251
Bond funds	105,107	-	-	-	105,107
Corporate debt instruments	-	47,347	-	-	47,347
Asset and mortgage-backed securities	-	74,043	-	-	74,043
Long/short equity	-	8,922	-	-	8,922
Absolute return	(72)	13,163	-	-	13,091
Other investments	-	-	-	1,572,532	1,572,532
Net receivables	1,762	-	-	-	1,762
Plans' assets at fair value	$ 972,480	$ 250,745	$ -	$ 1,572,532	$ 2,795,757

The fair values of the Plans' assets at December 31, 2022, 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	$ 361,310	$ 4,300	$ -	$ -	$ 365,610
International equity	261,073	129	-	-	261,202
International REITS	-	-	-	-	-
U.S. REITS	37,558	1,714	-	-	39,272
Fixed income:					
Government securities	37,691	2,669	-	-	40,360
Bond funds	95,860	-	-	-	95,860
Corporate debt instruments	-	41,951	-	-	41,951
Asset and mortgage-backed securities	-	62,870	-	-	62,870
Long/short equity	72,302	45,094	-	-	117,396
Absolute return	11,074	-	-	-	11,074
Other investments	-	-	-	1,588,482	1,588,482
Net receivables	3,616	-	-	-	3,616
Plans' assets at fair value	$ 880,484	$ 158,727	$ -	$ 1,588,482	$ 2,627,693

(DOLLARS IN THOUSANDS)

10. HEALTH INSURANCE REVENUE AND COSTS

Health care costs were $13,465,127 and $11,882,007, of which $3,341,480 and $2,970,247 were eliminated in consolidation representing medical services performed by UPMC provider entities for the years ended December 31, 2023 and 2022, 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 the 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, 2023 were the completion and trend factors.

		2023		2022
Reserve for physical health care costs (beginning balance)	**$**	**647,538**	$	642,078
Add: Provisions for medical costs occurring in:				
Current year		**12,097,561**		10,622,623
Prior year		**(13,028)**		13,174
Net incurred medical costs		**12,084,533**		10,635,797
Deduct: Payments for claims occurring in:				
Current year		**11,341,843**		9,975,085
Prior year		**634,509**		655,252
Net paid medical costs		**11,976,352**		10,630,337
Reserve for physical health care costs (ending balance)	**$**	**755,719**	$	647,538

The foregoing rollforward shows favorable development of $13,028 and unfavorable development of $13,174 for the years ended December 31, 2023 and 2022, 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 claims 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 claims expense or a reduction of claims expense in the period an adjustment is made.

Incurred claims development for the years ended December 31, 2023, 2022 and 2021 are as follows:

	(Unaudited) December 31, 2021	(Unaudited) December 31, 2022	**December 31, 2023**
December 31, 2021	$ 10,149,739	$ 10,162,913	**$ 10,162,913**
December 31, 2022		10,622,623	**10,609,595**
December 31, 2023			**12,097,561**
			$ 32,870,069

Paid claims development for the years ended December 31, 2023, 2022 and 2021 are as follows:

	(Unaudited) December 31, 2021	(Unaudited) December 31, 2022	**December 31, 2023**
December 31, 2021	$ 9,507,661	$ 10,162,913	**$ 10,162,913**
December 31, 2022		9,975,085	**10,609,594**
December 31, 2023			**11,341,843**
			$ 32,114,350

At December 31, 2023, 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, 2023, 2022 and 2021 are as follows:

	Total IBNR and Expected Development on Reported Claims	**(Unaudited) Cumulative Number of Reported Claims***
December 31, 2021	$ -	25,671
December 31, 2022	-	27,268
December 31, 2023	755,719	29,034
Total	**$ 755,719**	**81,973**

** 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.

Certain entities within the Insurance Services division are subject to risk-based capital requirements as specified by the National Association of Insurance Commissioners ("NAIC"). Under those requirements, the amount of capital and surplus maintained by these entities is determined based on the various risk factors related to it. Net assets without donor restrictions required to meet statutory requirements of the Health Plans were $1,740,233 and $1,622,649 at December 31, 2023 and 2022, 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 $549,323 and $541,413, discounted at 4.25% and 3.50% (which approximates the risk-free rates), were recorded as of December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, respectively, $123,596 and $105,711 of the loss reserves are included in current portion of insurance reserves and $425,727 and $435,702 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, 2023 and 2022.

	2023	2022
Reserve for professional and general liability costs (beginning balance)	**$ 541,413**	$ 533,315
Add: Provisions for claims expenses occurring in:		
Current year	**143,486**	138,402
Prior year	**6,469**	2,398
Change in discount rate	**(11,697)**	(22,008)
Net incurred claims expenses	**138,258**	118,792
Deduct: Payments for claims expenses occurring in:		
Current year	**10,309**	510
Prior year	**118,824**	95,071
Net paid claims expenses	**129,133**	95,581
Changes in other reserves	**(1,215)**	(15,113)
Reserve for professional and general liability costs (ending balance)	**$ 549,323**	$ 541,413

The foregoing rollforward shows unfavorable development of $6,469 and $2,398 for the years ended December 31, 2023 and 2022, respectively.

(DOLLARS IN THOUSANDS)

The following table provides undiscounted information for claims development for incurred losses and paid claims loss by incident year for the year ended December 31, 2023. The information about incurred and paid claims development for the years ended December 2014 to 2022 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Unaudited									
2014	$ 86,191	$ 84,910	$ 83,562	$ 78,108	$ 75,644	$ 73,443	$ 74,808	$ 76,487	$ 76,103	**$ 78,710**
2015	-	96,593	102,111	89,569	88,801	83,033	80,946	79,273	79,446	**80,648**
2016	-	-	90,844	94,155	91,655	84,615	73,214	72,195	71,692	**72,184**
2017	-	-	-	100,732	99,428	104,403	103,570	100,146	99,861	**89,391**
2018	-	-	-	-	100,781	97,451	96,836	93,128	89,834	**90,876**
2019	-	-	-	-	-	103,995	106,787	109,126	109,640	**99,129**
2020	-	-	-	-	-	-	108,482	109,915	112,983	**105,765**
2021	-	-	-	-	-	-	-	125,437	125,368	**126,944**
2022	-	-	-	-	-	-	-	-	138,402	**134,611**
2023	-	-	-	-	-	-	-	-	-	**143,486**
								Total		**$ 1,021,744**

DIRECT CLAIM LOSS PAID

Accident Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Unaudited									
2014	$ 467	$ 7,771	$ 16,949	$ 40,736	$ 49,807	$ 57,372	$ 61,217	$ 64,744	$ 67,374	**$ 73,734**
2015	-	355	16,914	26,838	48,191	58,646	65,427	68,562	70,716	**72,721**
2016	-	-	446	6,375	14,220	27,736	39,232	46,946	50,379	**60,763**
2017	-	-	-	1,610	10,168	27,867	50,244	55,202	60,770	**74,538**
2018	-	-	-	-	251	3,555	22,235	37,270	44,465	**62,372**
2019	-	-	-	-	-	216	13,936	25,751	40,448	**54,122**
2020	-	-	-	-	-	-	759	12,369	25,494	**31,713**
2021	-	-	-	-	-	-	-	363	18,416	**28,271**
2022	-	-	-	-	-	-	-	-	510	**6,662**
2023	-	-	-	-	-	-	-	-	-	**10,309**
								Total		**$ 475,205**

Net reserves	**$ 546,539**
Other reserves	38,071
Risk retention group	30,994
Discount adjustment	(66,281)
Total reserves	**$ 549,323**

(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 and Prior
1.2%	7.9%	12.1%	19.9%	15.7%	10.3%	7.1%	5.5%	5.3%	15.0%

In addition, the following table shows the total of IBNR plus expected development on reported claims by incident year and the cumulative number of reported claims by incident 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.

Incident Year	Incurred Claim Loss and Adjustment Expenses for the Year Ended December 31, 2023	Total Incurred but Not Reported as of December 31, 2023	Cumulative Number of Claims Reported as of December 31, 2023
2014	$ 78,710	$ -	280
2015	80,648	-	309
2016	72,184	2,146	278
2017	89,391	6,438	273
2018	90,876	15,063	278
2019	99,129	22,051	305
2020	105,765	43,079	222
2021	126,944	71,239	229
2022	134,611	109,608	195
2023	143,486	131,013	101

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.

(DOLLARS IN THOUSANDS)

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.

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 of Pittsburgh ("the University") in which UPMC purchases and sells certain services. 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, 2023 and 2022, UPMC incurred expenses of $247,300 and $242,000, respectively, for academic and research support. Payments to the University that are core to UPMC's missions related to providing clinical care totaled $172,591 and $170,932 for the years ended December 31, 2023 and 2022, 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 year to 25 years, some of which include options to extend the leases for several periods, and some of which include options to terminate the leases within one year. Statement of operations and changes in net assets information related to leases were as follows:

	Year Ended December 31	
	2023	2022
Finance lease cost:		
Depreciation	**$ 21,600**	$ 27,840
Interest on lease liabilities	**1,851**	1,999
Total finance lease cost	**23,451**	29,839
Operating lease cost	**155,304**	159,230
Short-term/variable lease cost	**28,551**	27,817
Total	**$ 207,306**	$ 216,886

(DOLLARS IN THOUSANDS)

Supplemental balance sheet information related to leases was as follows:

	Year Ended December 31	
	2023	2022
OPERATING LEASES		
Operating lease right-of-use assets	**$ 738,064**	$ 796,886
Other current liabilities	**138,039**	148,940
Operating lease liabilities	**707,447**	770,766
Total operating lease liabilities	**$ 845,486**	$ 919,706
FINANCE LEASES		
Property, plant and equipment, net	**$ 62,139**	$ 60,853
Current portion of long-term obligations	**19,502**	22,673
Long-term obligations	**46,181**	46,965
Total finance lease liabilities	**$ 65,683**	$ 69,638
WEIGHTED AVERAGE REMAINING LEASE TERM		
Operating leases	**9.3 years**	9.6 years
Finance leases	**6.8 years**	7.2 years
WEIGHTED AVERAGE DISCOUNT RATE		
Operating leases	**2.9%**	2.8%
Finance leases	**3.1%**	2.8%

Undiscounted maturities of lease liabilities were as follows:

For the Years Ended December 31	Operating Leases	Finance Leases
2024	**$ 149,926**	**$ 21,263**
2025	**127,824**	**14,314**
2026	**112,989**	**9,835**
2027	**90,203**	**4,917**
2028	**83,651**	**1,694**
Thereafter	**352,880**	**14,319**
Total undiscounted maturities of lease liabilities	**$ 917,473**	**$ 66,342**
Less: discount on lease liabilities	**(71,987)**	**(659)**
Total lease liabilities	**$ 845,486**	**$ 65,683**

(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 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. Based on this analysis, a full valuation allowance was applied for the years ended December 31, 2023 and December 31, 2022.

As of December 31, 2023, the for-profit entities of UPMC had gross federal net operating loss ("NOL") carryforwards of $996,088 (expiring in years 2024 through 2043) and gross state (primarily related to Pennsylvania) NOL carryforwards of $1,972,388 (expiring in years 2024 through 2043) that are available to offset future taxable income. During 2022, Pennsylvania enacted a corporate income tax rate reduction that will take effect incrementally from 2023 through 2031 and which resulted in revaluation of UPMC's state NOLS to reflect the lower rate. Utilization of the Pennsylvania NOL carryforwards in any one year is limited to 40% of taxable income per company and NOLs may be carried forward 20 years. Federal NOLs generated prior to January 1, 2018 can be carried forward up to 20 years and there is no taxable income limitation on the utilization of such NOLs. Non-insurance company federal NOLs generated subsequent to December 31, 2017 carryforward indefinitely and utilization of such NOLs is limited to 80% of taxable income. Non-life insurance company federal NOLs generated subsequent to December 31, 2017 can be carried forward up to 20 years and there is no taxable income limitation on the utilization of such NOLs. During the calendar years ended December 31, 2023 and December 31, 2022, UPMC realized tax benefits of $84 and $736, respectively, from the use of NOL carryforwards to offset federal and state net taxable income.

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	**2023**	2022
Taxes computed at the federal rate	**$ (35,592)**	$ (34,781)
State income taxes, net of federal tax benefit	**2,235**	2,228
Valuation allowance	**23,011**	29,630
Permanent differences	**9,907**	6,366
Other items, net	**13,207**	2,743
Income tax expense	**$ 12,768**	$ 6,186

(DOLLARS IN THOUSANDS)

The following table presents deferred tax assets as of December 31, 2023 and 2022:

	2023	2022
Deferred tax assets:		
Net operating losses	$ 288,157	$ 261,230
Accrued benefits	23,083	23,618
Other	22,230	36,986
	333,470	321,834
Less valuation allowance	(333,470)	(321,834)
	$ -	$ -

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, 2023, 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, 2023, UPMC's returns for the calendar years ended December 31, 2020, through December 31, 2022, 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, 2023 and 2022, expenses related to providing these services were as follows:

FOR THE YEAR ENDED DECEMBER 31, 2023

	Hospital & health care services	Insurance services	Academic & research activities	UPMC Enterprises activity	Admin support	Total
Salaries, professional fees and employee benefits	$ 8,004,186	$ 643,932	$ -	$ -	$ 1,008,183	$ 9,656,301
Insurance claims expense	-	10,123,647	-	-	-	10,123,647
Supplies, purchased services and general	5,920,991	902,896	-	-	602,330	7,426,217
Depreciation and amortization	499,711	6,289	-	-	186,658	692,658
Academic and research support provided	-	-	247,300	-	-	247,300
Income tax expense	-	-	-	-	12,768	12,768
Interest expense	205,396	-	-	-	-	205,396
Portfolio company and development expense	-	-	82,899	158,110	-	241,009
	$ 14,630,284	$ 11,676,764	$ 330,199	$ 158,110	$ 1,809,939	$ 28,605,296

FOR THE YEAR ENDED DECEMBER 31, 2022

	Hospital & health care services	Insurance services	Academic & research activities	UPMC Enterprises activity	Admin support	Total
Salaries, professional fees and employee benefits	$ 7,516,856	$ 578,066	$ -	$ -	$ 980,882	$ 9,075,804
Insurance claims expense	-	8,911,760	-	-	-	8,911,760
Supplies, purchased services and general	5,207,606	826,025	-	-	654,911	6,688,542
Depreciation and amortization	494,332	7,095	-	-	192,330	693,757
Academic and research support provided	-	-	242,000	-	-	242,000
Income tax expense	-	-	-	-	6,186	6,186
Interest expense	157,959	-	-	-	-	157,959
Portfolio company and development expense	-	-	75,155	123,017	-	198,172
	$ 13,376,753	$ 10,322,946	$ 317,155	$ 123,017	$ 1,834,309	$ 25,974,180

(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 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:

	2023	2022
Technology research and development costs	**$ (58,076)**	$ (52,887)
Investments in translational sciences	**(24,823)**	(22,268)
Revenue from portfolio companies with controlling interest	**74,533**	33,041
Expenses of portfolio companies with controlling interest	**(155,901)**	(116,864)
Net loss from non-consolidated interest in portfolio companies	**(2,209)**	(6,153)
Net gains (losses) gains from technology-related investments	**48,343**	(21,571)
UPMC Enterprises activity	**$ (118,133)**	$ (186,702)

17. CONTINGENCIES

UPMC is frequently made party to a variety of legal actions and regulatory inquiries, including class actions and suits brought by members, care providers, consumer advocacy organizations, customers and regulators. These matters include medical malpractice, employment, intellectual property, antitrust, privacy and contract claims, claims related to health care benefits coverage and other business practices. UPMC records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of costs resulting from legal and regulatory matters involving UPMC are inherently difficult to predict, particularly where the matters involve indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or represent a shift in regulatory policy; involve a large number of claimants or regulatory bodies; are in the early stages of the proceedings; or could result in a change in business practices. Accordingly, UPMC is often unable to estimate the losses or ranges of losses for those matters where there is a reasonable possibility, or it is probable a loss may be incurred.

Concurrently, UPMC has been involved or is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Government Accountability Office, the Federal Trade Commission, U.S. Congressional committees, the U.S. Department of Justice (DOJ), the IRS, the U.S. Drug Enforcement Administration, the U.S. Department of Labor, the FDIC, Consumer Financial Protection Bureau and other governmental authorities. UPMC records liabilities for estimates of probable cost resulting from these matters where appropriate. Estimates of cost resulting from governmental investigations, audits and reviews are inherently difficult to predict and as a result UPMC cannot reasonably estimate the outcome which may result from these matters given their procedural status.

18. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to December 31, 2023 through February 27, 2024, the date the consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplemental Information

UPMC

Supplemental Consolidating Balance Sheet

As of December 31, 2023

(IN THOUSANDS)

	UPMC Western Maryland	Western Maryland Health System Foundation	Haystack Consolidated Services	All Other Western Maryland	Total Western Maryland	All Other UPMC	Total UPMC
Cash and cash equivalents	$ 31,260	$ 719	$ -	$ 6,507	$ 38,486	$ 1,065,712	$ 1,104,198
Patient accounts recievable	53,916	(123)	-	-	58,045	1,529,512	1,587,557
Insurance and other receivables	181	12	1,212	7,294	8,699	1,780,730	1,789,429
Other current assets	1,936	-	-	(36,791)	(34,855)	751,999	717,144
Total current assets	**$ 87,293**	**$ 608**	**$ 1,212**	**$ (18,738)**	**$ 70,375**	**$ 5,127,953**	**$ 5,198,328**
Board-designated, restricted, trusteed and other investments	6,055	17,927	-	12,830	36,812	8,405,569	8,442,381
Beneficial interests in foundation and trusts	-	1,996	-	-	1,996	724,519	726,515
Property, buildings, and equipment:							
Land and land improvement	16,670	-	-	-	16,670	555,980	572,650
Buildings and fixed equipment	194,749	-	-	-	200,115	9,291,667	9,491,782
Movable equipment	45,343			3,924	49,267	3,556,743	3,606,010
Finance leases		-	-	644	644	186,313	186,957
Construction in progress	375	-	-	-	375	489,897	490,272
	257,137	-	-	9,934	267,071	14,080,600	14,347,671
Less allowance for depreciation	(77,983)	-	-	(4,459)	(82,442)	(7,640,804)	(7,723,246)
	$ 179,154	**$ -**	**$ -**	5,475	**$ 184,629**	**$ 6,439,796**	**$ 6,624,425**
						-	
Operating lease right-of-use assets	-					738,064	738,064
Other assets	99,592	155	-	4	99,751	817,271	917,022
Total assets	**$ 372,094**	**$ 20,686**	**$ 1,212**	**$ (429)**	**$ 393,563**	**$ 22,253,172**	**$ 22,646,735**
Accounts payable and accrued expenses	6,729	-	-	12,233	18,962	907,562	926,524
Accrued salaries and related benefits	-	-	-	-	-	1,060,393	1,060,393
Current portion of insurance reserves	-	-	-	-	-	1,301,619	1,301,619
Current portion of long-term obligations	259	-	-	88	347	170,892	171,239
Other current liabilities	14,663	1,686	-	94	16,443	861,879	878,322
Total current liabilities	**$ 21,651**	**$ 1,686**		**$ 12,415**	**$ 35,752**	**$ 4,302,345**	**$ 4,338,097**
Long-term obligations	-	-	-	-	-	6,623,508	6,623,508
Long-term insurance reserves	-	-	-	-	-	446,567	446,567
Operating leases noncurrent liabilities	-	-	-	-	-	707,447	707,447
Other noncurrent liabilities	-	-	-	-	-	546,479	546,479
Total liabilities	**$ 21,651**			**$ 14,101**	**$ 35,752**	**$ 12,626,346**	**$ 12,662,098**
Net assets without donor restrictions	349,667	11,534	1,212	(12,845)	349,568	8,380,843	8,730,411
Net assets with donor restrictions	776	7,466	-	1	8,243	1,245,983	1,254,226
Total net assets	**$ 350,443**	**$ 19,000**	**$ 1,212**	**$ (12,844)**	**$ 357,811**	**$ 9,626,826**	**$ 9,984,637**
Total liabilities and net assets	**$ 372,094**	**$ 20,686**	**$ 1,212**	**$ (429)**	**$ 393,563**	**$ 22,253,172**	**$ 22,646,735**

UPMC

Supplemental Consolidating Statement of Operations

For the Year Ended December 31, 2023

(IN THOUSANDS)

	UPMC Western Maryland	Western Maryland Health System Foundation	Haystack Consolidated Services	All Other Western Maryland	Total Western Maryland	All Other UPMC	Total UPMC
Net patient service revenue	$ 347,382	-	$ -	26,625	$ 374,007	$ 10,802,045	$ 11,176,052
Insurance enrollment revenue	-	-	-	-	-	14,281,945	14,281,945
Other revenue	8,375	292	-	3,644	12,311	2,230,180	2,242,491
Total operating revenues	**$ 355,757**	**$ 292**	**$ -**	**$ 30,269**	**$ 386,318**	**$ 27,314,170**	**$ 27,700,488**
Salaries, professional fees and employee benefits	170,247	456	-	43,190	213,893	9,442,408	9,656,301
Insurance claims expense	3,517	-	-	-	3,517	10,120,130	10,123,647
Supplies, purchased services and general	109,084	2,651		9,192	120,927	7,305,290	7,426,217
Depreciation and amortization	22,133	-	-	878	23,011	669,647	692,658
Total operating expenses	**304,981**	**3,107**	**-**	**53,260**	**361,348**	**27,537,475**	**27,898,823**
				-			
Operating income (loss)	**$ 50,776**	**$ (2,815)**	**$ -**	**$ (22,991)**	**$ 24,970**	**$ (223,305)**	**$ (198,335)**
Academic and research support provided	-	-	-	-	-	(247,300)	(247,300)
Income tax and other non-operating expenses	4	-	-	-	4	6,414	6,418
After-tax income (loss)	**$ 50,780**	**$ (2,815)**	**$ -**	**$ (22,991)**	**$ 24,974**	**$ (464,191)**	**$ (439,217)**
Investing and financing activities:							
Investment revenue	20,203	1,772	-	-	21,975	725,018	746,993
Interest expense	(8,815)	-	-	(1)	(8,816)	(196,580)	(205,396)
Gain on extinguishment of debt	-	-	-	-	-	1,274	1,274
UPMC Enterprises activity:							
Portfolio company revenue	-	-	-	-	-	122,876	122,876
Portfolio company and development expense	-	-	-	-	-	(241,009)	(241,009)
(Loss) gain from investing and financing activities	**$ 11,388**	**$ 1,772**	**$ -**	**$ (1)**	**$ 13,159**	**$ 411,579**	**$ 424,738**
Excess of revenues over expenses (expenses over revenues)	63,526	(1,043)	-	(25,207)	37,276	(51,755)	(14,479)
Excess of revenues over expenses (expenses over revenues) attributable to noncontrolling interest	-	-	-	2,215	2,215	13,960	16,175
Excess of revenues over expenses (expenses over revenues) attributable to controlling interest	**$ 63,526**	**$ (1,043)**	**$ -**	**$ (25,207)**	**$ 37,276**	**$ (67,930)**	**$ (30,654)**