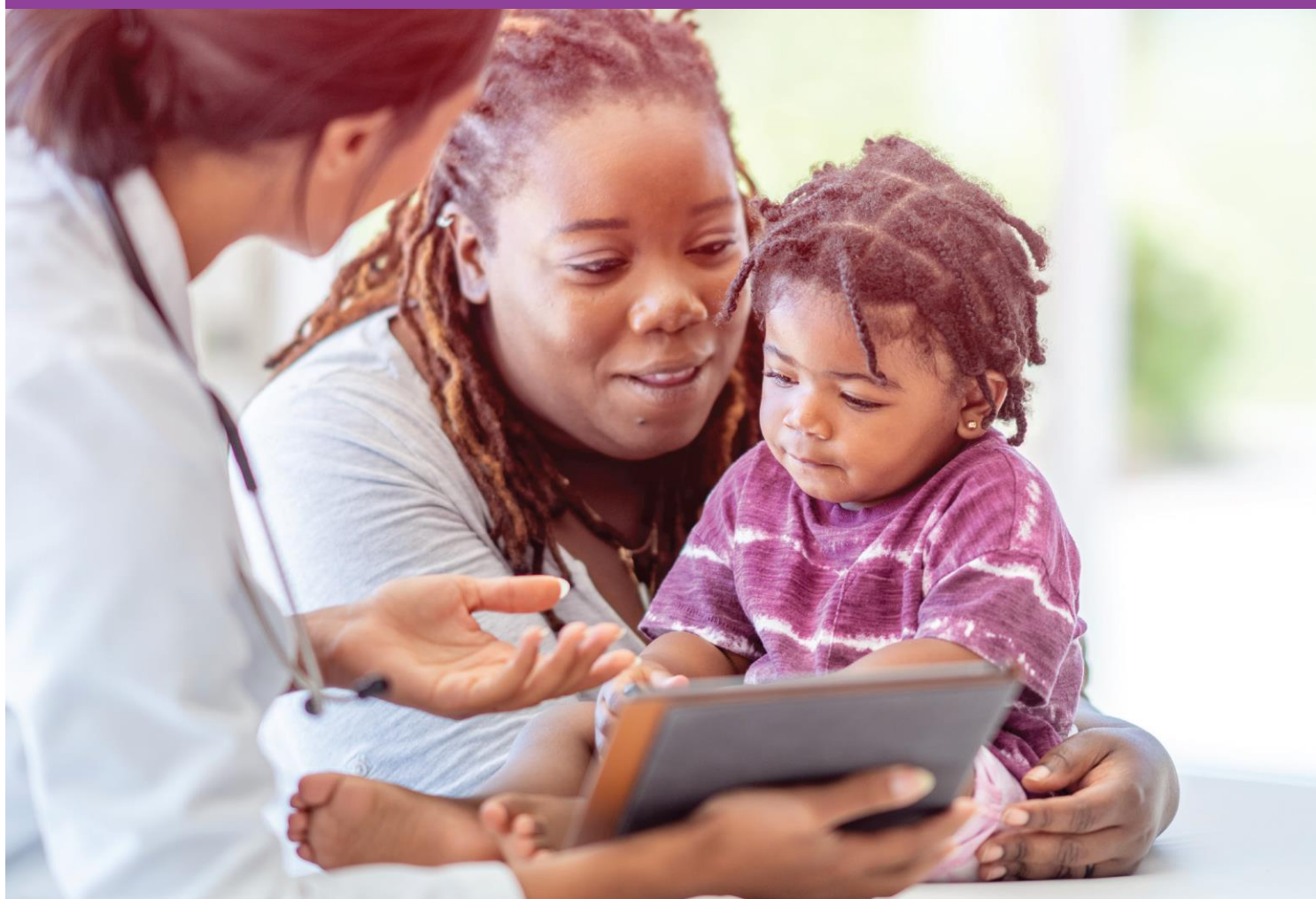


UPMC Year End Financial and Operating Report & Audited Consolidated Financial Statements

FOR THE PERIOD ENDED DECEMBER 31, 2024



UPMC
LIFE CHANGING MEDICINE

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, 2024 and 2023, 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, 2024 and 2023, 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, 2024, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 4, 2025 (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, 2024 and supplemental consolidating statement of operations for the year ended December 31, 2024 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, 2024, the Company's net patient service revenue was \$12.2 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.
March 4, 2025

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS)

	As of	
	December 31, 2024	December 31, 2023
CURRENT ASSETS		
Cash and cash equivalents	\$ 974,097	\$ 1,104,198
Patient accounts receivable	1,661,310	1,587,557
Insurance and other receivables	1,815,329	1,789,429
Other current assets	855,721	717,144
Total current assets	5,306,457	5,198,328
Board-designated, restricted, trustee and other investments	7,918,918	8,442,381
Beneficial interests in foundations and trusts	801,970	726,515
Property, buildings and equipment:		
Land and land improvements	575,439	572,650
Buildings and fixed equipment	9,700,631	9,491,782
Movable equipment	3,690,485	3,606,010
Finance leases	129,775	186,957
Construction in progress	884,593	490,272
	14,980,923	14,347,671
Less allowance for depreciation	(7,983,109)	(7,723,246)
	6,997,814	6,624,425
Operating lease right-of-use assets	826,428	738,064
Other assets	915,148	917,022
Total assets	\$ 22,766,735	\$ 22,646,735
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 954,456	\$ 926,524
Accrued salaries and related benefits	1,121,930	1,060,393
Current portion of insurance reserves	1,371,581	1,301,619
Current portion of long-term obligations	538,249	171,239
Other current liabilities	690,557	878,322
Total current liabilities	4,676,773	4,338,097
Long-term obligations	6,110,907	6,623,508
Long-term insurance reserves	470,580	446,567
Operating lease noncurrent liabilities	787,352	707,447
Other noncurrent liabilities	557,218	546,479
Total liabilities	12,602,830	12,662,098
Net assets without donor restrictions	8,829,099	8,730,411
Net assets with donor restrictions	1,334,806	1,254,226
Total net assets	10,163,905	9,984,637
Total liabilities and net assets	\$ 22,766,735	\$ 22,646,735

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(DOLLARS IN THOUSANDS)

	Years Ended December 31	
	2024	2023
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net patient service revenue	\$ 12,180,180	\$ 11,176,052
Insurance enrollment revenue	15,112,377	14,281,945
Other revenue	2,573,709	2,242,491
Total operating revenues	29,866,266	27,700,488
Salaries, professional fees and employee benefits	9,968,163	9,656,301
Insurance claims expense	11,227,562	10,123,647
Supplies, purchased services and general	8,178,857	7,426,217
Depreciation and amortization	702,560	692,658
Total operating expenses	30,077,142	27,898,823
Operating loss prior to restructuring costs	(210,876)	(198,335)
Restructuring costs	(128,001)	-
Operating loss	(338,877)	(198,335)
Academic and research support provided	(253,000)	(247,300)
Inherent contribution from affiliations	220,538	-
Income tax and other non-operating activities	24,871	6,418
After-tax loss	\$ (346,468)	\$ (439,217)
Investing and financing activities:		
Investment gain	679,923	746,993
Interest expense	(228,410)	(205,396)
Gain on extinguishment of debt	216	1,274
UPMC Enterprises activity:		
Portfolio company revenue and net gains from sales	142,923	122,876
Portfolio company and research and development expense	(266,978)	(241,009)
Gain from investing and financing activities	327,674	424,738
Excess of expenses over revenues	(18,794)	(14,479)
Net activity attributable to noncontrolling interest	4,106	(16,175)
Excess of expenses over revenues attributable to controlling interest	(14,688)	(30,654)
Net change in pension liability and other	113,376	23,996
Change in net assets without donor restrictions	\$ 98,688	\$ (6,658)
NET ASSETS WITH DONOR RESTRICTIONS		
Change in beneficial interests in foundations and trusts	35,411	59,135
Restricted net assets acquired	40,044	-
Other changes in net assets with donor restrictions	5,125	25,278
Change in net assets with donor restrictions	80,580	84,413
Change in total net assets	179,268	77,755
Net assets, beginning of period	9,984,637	9,906,882
Net assets, end of period	\$ 10,163,905	\$ 9,984,637

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

Years Ended December 31

2024 2023

OPERATING ACTIVITIES

Increase in total net assets	\$	179,268	\$	77,755
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization		702,560		692,658
Change in beneficial interest in foundations and trusts		(35,411)		(59,135)
Restricted contributions and investment gains		(47,880)		(25,278)
Restricted net assets acquired		(40,044)		-
Unrealized losses (gains) on investments		144,944		(240,916)
Realized gains on investments		(625,912)		(332,891)
Purchases of non-alternative investments		(13,853,618)		(8,898,990)
Sales of non-alternative investments		14,834,630		8,822,079
Inherent contribution from affiliations		(220,538)		-
Changes in operating assets and liabilities:				
Accounts receivable		(6,396)		(25,243)
Other current assets		(123,647)		(122,776)
Accounts payable and accrued liabilities		50,844		128,710
Insurance reserves		93,975		134,768
Other current liabilities		(196,284)		(60,688)
Other noncurrent assets and liabilities		78,645		(234,304)
Other operating changes		58,125		(29,561)
Net cash provided by (used in) operating activities		993,261		(173,812)

INVESTING ACTIVITIES

Purchases of property, buildings and equipment	(958,505)	(719,469)
UPMC Enterprises investments in non-consolidated entities	(70,845)	(57,500)
Cash used for acquisitions	-	(247,626)
Cash acquired through affiliations and asset sales	46,493	-
Net change in investments designated as nontrading	(24,434)	(30,676)
Purchases of alternative investments	(154,418)	(256,345)
Sales of alternative investments	345,170	255,629
Net change in other assets	(163,471)	93,848
Net cash used in investing activities	(980,010)	(962,139)

FINANCING ACTIVITIES

Repayments of long-term obligations	(210,291)	(554,464)
Borrowings of long-term obligations	19,059	1,841,551
Restricted contributions and investment gains	47,880	25,278
Consideration paid to noncontrolling interest entities	-	(26,196)
Net cash (used in) provided by financing activities	(143,352)	1,286,169
Net change in cash and cash equivalents	(130,101)	150,218
Cash and cash equivalents, beginning of period	1,104,198	953,980
Cash and cash equivalents, end of period	\$ 974,097	\$ 1,104,198

SUPPLEMENTAL INFORMATION

Finance lease obligations incurred to acquire assets	\$	28,896	\$	24,209
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See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

1. ORGANIZATIONAL OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UPMC is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code (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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2024 or 2023.

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, 2024 and 2023 is as follows:

Years Ended December 31	2024	2023
Commercial	37%	37%
Medicare	40%	41%
Medical Assistance	16%	16%
Self-pay/other	7%	6%
	100%	100%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2024 and 2023 include:

Years Ended December 31	2024	2023
Commercial	45%	44%
Medicare	32%	32%
Medical Assistance	9%	11%
Self-pay/other	14%	13%
	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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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 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 in the consolidated statements of operations and changes in net assets. Realized and unrealized gains and losses on donor-restricted assets are recorded as changes in net assets with donor restrictions in the consolidated statements of operations and changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations. These investments predominantly include those maintained in MTF and are summarized as nonalternative investments in Note 5.

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

The values of UPMC's private equity investments are based upon financial statements received from the general partners, which are generally received on a quarterly lag. As a result, the market values and earnings recorded as of December 31, 2024 generally reflect the partnership activity experienced during the year ended September 30, 2024. 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 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, trustee 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 \$7,522,732 and \$8,277,332 at December 31, 2024 and 2023, 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, 2024 and 2023, is \$157 and \$244, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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, 2024 and 2023, securities loaned to various parties, of which UPMC maintains ownership, were \$71,365 and \$173,154, respectively, and total collateral (cash and noncash) received related to the securities loaned was \$75,442 and \$181,122, respectively.

Premium Deficiency Reserve

UPMC evaluates certain of its insurances contracts to assess the sufficiency of premiums collected in relation to the expected future costs of policy benefits and expenses. If the review indicates that the present value of expected future claims, unamortized acquisition costs and maintenance costs exceeds the expected premium from in-force contracts, a premium deficiency reserve ("PDR") must be established. For purposes of determining a PDR, contracts are grouped in a manner consistent with the method of acquiring, servicing, and measuring profitability of such contracts and expected investment income is included. In September 2024, UPMC recorded a PDR of \$115,000, primarily related to its 2024 contract year Medicare and Medicaid products. The reserve was fully amortized during the fourth quarter of 2024, offsetting actual losses from that period. As of December 31, 2024 and 2023, UPMC determined that expected premiums were in excess of expected future costs and therefore no PDR was recorded.

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 \$801,970 and \$726,515 and the net assets with donor restrictions of consolidated foundations of \$99,968 and \$97,477 as of December 31, 2024 and 2023, 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, 2024 and 2023 was \$702,038 and \$691,387, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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, 2024, unless it is probable that the option will be exercised.

Asset Impairment

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

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 \$317,425 and \$370,404 at December 31, 2024 and 2023, 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, 2024 and 2023, goodwill of \$417,552 and \$417,701 respectively, is recorded in UPMC's consolidated balance sheets as other assets.

Goodwill is reviewed annually for impairment, or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. 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, 2024 and 2023, after application of the qualitative approach, there were no indicators of impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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, 2024 and 2023 are designated as hedging instruments and, as such, changes in fair value are recognized in investing and financing activities as investment 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 \$448,982 and \$403,884 of net assets held in perpetuity and \$885,824 and \$850,342 of temporary restricted net assets at December 31, 2024 and 2023, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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

Throughout 2024, UPMC has undertaken a comprehensive initiative aimed at enhancing operational efficiency and optimizing cost structures. As part of this initiative, UPMC incurred severance expense, operational restructuring and other related costs totaling \$128,001 for the year ended December 31, 2024. Of the expenses incurred, approximately \$115,000 were paid during the year ended December 31, 2024, and the remainder is accrued in accounts payable and accrued expenses in the consolidated balance sheet as of December 31, 2024.

In response to the COVID-19 pandemic, the United States Department of Homeland Security, through the Federal Emergency Management Agency ("FEMA"), enacted several programs that provide resources and relief funds to hospitals and other health care providers. FEMA funding has served as reimbursement for health care related expenses incurred as a result of the COVID-19 pandemic. For the years ended December 31, 2024 and 2023, UPMC has recognized approximately \$270,000 and \$48,000, respectively, within other revenue.

In June 2024, UPMC and the Washington Health System ("WHS") executed an Integration and Affiliation Agreement (the "Agreement") as part of UPMC's continued commitment to providing high-quality health care to residents in the Washington and Greene counties of Pennsylvania. As a result of the Agreement, UPMC acquired approximately \$369,000 of total assets, consisting of \$128,000 of investments, \$79,000 of property, plant and equipment, \$57,000 of current and long-term assets, \$40,000 of beneficial interest in foundations, \$37,000 of cash and \$28,000 of accounts receivable, assumed approximately \$108,000 of total liabilities including \$61,000 of current and long-term liabilities and \$47,000 of debt obligations, and acquired approximately \$40,000 of net assets with donor restrictions. UPMC applies the guidance set forth in Accounting Standards Codification ("ASC") 805 *Business Combinations* for affiliations and acquisitions and, as such, will continue to assess the fair value of any assets and liabilities acquired as of the acquisition date.

The purchase accounting is preliminary and subject to the completion of the fair value assessment. Material adjustments, if any, to provisional amounts in subsequent periods, will be reflected as required as adjustments to assets and liabilities acquired, along with an offsetting adjustment to inherent contribution in the period in which the purchase price allocation is completed. For this affiliation, UPMC applied the not-for-profit business combination accounting guidance, ASC Subtopic 958-805: *Not-for-Profit Entities – Business Combinations*. The guidance primarily characterizes business combinations between not-for-profit entities as nonreciprocal transfers of assets resulting in the contribution of the acquiree's net assets to the acquirer. As of the affiliation date, the guidance prescribes that the acquirer recognize the excess fair value of the net assets acquired over the fair value of the consideration transferred as a separate credit in its statement of operations as of the affiliation date. Accordingly, UPMC recognized an inherent contribution related to the net assets acquired in the transaction of \$220,538 in its consolidated statement of operations and changes in net assets for the year ended December 31, 2024. The inherent contribution recorded for the period is based on the preliminary fair market values of the net assets acquired.

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*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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.

3. NEW ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncements were released or adopted that will have a material effect on UPMC’s consolidated financial statements for the year ended December 31, 2024.

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 \$171,084 and \$122,140 for the years ended December 31, 2024 and 2023, 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	
	2024	2023
Internally designated:		
Health insurance programs	\$ 1,379,360	\$ 1,675,823
Professional and general liability insurance program	706,371	676,371
Employee benefit and workers’ compensation self-insurance programs	145,848	127,396
	2,231,579	2,479,590
Externally designated:		
Trusted assets for capital and debt service payments	1,179	15,667
Donor-restricted assets	495,386	490,379
	496,565	506,046
Other long-term investments	5,190,774	5,456,745
Board-designated, restricted, trustee and other investments	7,918,918	8,442,381
Cash and cash equivalents	974,097	1,104,198
	\$ 8,893,015	\$ 9,546,579

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Investments are maintained and administered using a bank as trustee. As of December 31, 2024, UPMC's investment portfolio, excluding Enterprises and various restricted assets, utilized 172 ongoing external investment managers including 29 traditional managers, 15 hedge fund managers and 48 private capital managers. UPMC is also invested with an additional 80 legacy private capital and hedge fund managers. The largest allocation to any alternative investment fund is \$120,364 as of December 31, 2024. 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 \$391,620 and \$460,741 as of December 31, 2024 and 2023, 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 may vary, investment periods are generally within six years.

Investment return from cash and investments is comprised of the following for the years ended December 31, 2024 and 2023:

	2024	2023
Interest income	\$ 183,049	\$ 155,674
Dividend income	48,376	54,460
Traditional investment manager and trustee fees	(32,557)	(35,235)
Net realized gains on sales of securities	625,912	332,891
	824,780	507,790
Other unrealized (loss) gain	(144,944)	240,916
Unrealized gain (loss) on derivative contracts	87	(1,713)
	(144,857)	239,203
Investment gain	\$ 679,923	\$ 746,993

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, 2024 is shown below:

Liquidity Availability	Cash and Cash Equivalents	Nonalternative Investments	Alternative Investments	Total
Within three days	\$ 974,097	\$ 5,353,962	\$ -	\$ 6,328,059
Within 30 days	-	-	45,789	45,789
Within 60 days	-	-	-	-
Within 90 days	-	-	646,327	646,327
More than 90 days	-	-	1,872,840	1,872,840
Total	\$ 974,097	\$ 5,353,962	\$ 2,564,956	\$ 8,893,015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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, 2024 and 2023, UPMC had issued \$128,080 and \$130,080, 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, 2024 and 2023, there was \$871,920 and \$869,920, respectively, available to borrow under the Revolving Facility. No amounts were outstanding under the Revolving Facility as of December 31, 2024 and 2023.

In support of the Insurance Services Division, UPMC has credit facilities of \$350,000 and \$25,000, the latter of which temporarily increases each year to \$250,000 from May 1st to August 31st. The credit facilities expire in May 2026 and May 2027, respectively. As of December 31, 2024, these credit facilities were undrawn.

7. LONG-TERM OBLIGATIONS AND DERIVATIVE INSTRUMENTS

Long-term obligations consist of the following:

	December 31	
	2024	2023
Fixed rate revenue bonds	\$ 5,271,193	\$ 5,369,977
Variable rate revenue bonds	873,325	896,291
Finance leases and other	276,794	273,750
Par value of long-term obligations	6,421,312	6,540,018
Net premium and other	227,844	254,729
	6,649,156	6,794,747
Less current portion	(538,249)	(171,239)
Total long-term obligations	\$ 6,110,907	\$ 6,623,508

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 1.40% to 6.00% as of December 31, 2024 and from 1.80% to 6.00% as of December 31, 2023. The average interest costs for the variable rate revenue bonds were 4.46% and 4.41% during the years ended December 31, 2024 and 2023, respectively. Bonds have varying principal payments and final maturities from 2025 through 2053. Certain revenue bonds (\$27,673 and \$35,872 for 2024 and 2023, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Bonds in the aggregate of \$6,144,361 and \$6,266,024 as of December 31, 2024 and 2023, 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, 2024 and 2023.

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:

2025	\$	538,249
2026		608,237
2027		284,985
2028		182,991
2029		195,357

Interest paid, net of amounts capitalized on all obligations was \$270,070 and \$237,797 during the years ended December 31, 2024 and 2023, 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, funded capital projects and supported 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.

UPMC maintains interest rate swap programs on certain of its debt in order to manage its interest rate risk. As of December 31, 2024, and December 31, 2023, 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 of \$13,330 and \$25,965, respectively. As of December 31, 2024, and December 31, 2023, 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") on a notional of \$26,675 and \$30,525, respectively. From origination through June 30, 2023, London Inter-Bank Offering Rate ("LIBOR") served as the receipt index for both agreements. Effective July 1, 2023, LIBOR ceased to be recognized as a representative index whereupon Secured Overnight Financing Rate ("SOFR") was selected as the replacement index. The aforementioned agreements are scheduled to mature in 2025 and 2037, respectively, and are carried as a liability with a combined market value of (\$157) as of December 31, 2024, and (\$244) as of December 31, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

8. FAIR VALUE MEASUREMENTS

As of December 31, 2024 and 2023, 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, trustee, 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, 2024 and 2023. 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, 2024 and 2023, respectively, UPMC had \$1,370,283 and \$1,269,247 of alternative investments accounted for under the equity method, which approximates fair value, but are excluded from the following tables.

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, 2024

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ -	\$ 2,352,381	\$ -	\$ -	\$ 2,352,381
Bond mutual funds	326,426	-	-	-	326,426
Domestic equity	1,296,224	9,304	-	-	1,305,528
International equity	555,260	-	-	-	555,260
Public real estate	84,489	-	-	-	84,489
Active equity	(36,721)	162,642	-	-	125,921
Absolute equity	130	66,587	-	-	66,717
Securities on loan	71,365	-	-	-	71,365
Securities lending collateral	28,344	-	-	-	28,344
Alternative and other investments at NAV	-	-	-	1,660,548	1,660,548
Total assets measured at fair value on a recurring basis	\$ 2,325,517	\$ 2,590,914	\$ -	\$ 1,660,548	\$ 6,576,979
LIABILITIES					
Payable under securities lending agreement	\$ (28,344)	\$ -	\$ -	\$ -	\$ (28,344)
Derivative instruments	-	(157)	-	-	(157)
Total liabilities measured at fair value on a recurring basis	\$ (28,344)	\$ (157)	\$ -	\$ -	\$ (28,501)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2023

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ -	\$ 3,046,146	\$ -	\$ -	\$ 3,046,146
Bond mutual funds	268,853	-	-	-	268,853
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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 \$311,919 and \$304,587, respectively, for the years ended December 31, 2024 and 2023.

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, 2024 and 2023, contributions made to the Plans were \$35,601 and \$158,101, 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, 2024 and December 31, 2023, the pension liability is included in other noncurrent liabilities on the consolidated balance sheets.

	Year Ended December 31	
	2024	2023
Accumulated benefit obligation	\$ 2,939,425	\$ 2,843,028
CHANGE IN PROJECTED BENEFIT OBLIGATION		
Projected benefit obligation at beginning of year	\$ 2,974,623	\$ 2,821,194
Service cost	168,168	158,126
Interest cost	151,918	148,925
Actuarial loss	12,004	35,763
Benefits paid	(238,444)	(189,385)
Projected benefit obligation at end of year	3,068,269	2,974,623
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	2,795,757	2,627,693
Actual return on plan assets	272,635	199,348
Employer contributions	35,601	158,101
Benefits paid	(238,444)	(189,385)
Fair value of plan assets at end of year	2,865,549	2,795,757
Pension liability at end of year	\$ 202,720	\$ 178,866

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Included in net assets without donor restrictions at December 31, 2024 and 2023 are the following amounts that have not yet been recognized in net periodic pension cost:

	As of December 31	
	2024	2023
Unrecognized prior service credit	\$ 18,295	\$ 23,551
Unrecognized net actuarial loss	(326,404)	(406,870)
	\$ (308,109)	\$ (383,319)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions during 2024 and 2023 include the following:

	Year Ended December 31	
	2024	2023
Current year net actuarial gain (loss)	\$ 67,708	\$ (15,481)
Amortization of actuarial loss	12,758	14,583
Amortization of prior service credit	(5,256)	(5,256)
	\$ 75,210	\$ (6,154)

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	
	2024	2023
Service cost	\$ 168,168	\$ 158,126
Interest cost	151,918	148,925
Expected return on plan assets	(192,923)	(179,066)
Amortization of actuarial loss	12,758	14,583
Amortization of prior service credit	(5,256)	(5,256)
Net periodic pension cost	\$ 134,665	\$ 137,312

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	
	2024	2023
Discount rates:		
Used for benefit obligations	5.73%	5.02%
Used for net periodic pension cost	5.02%	5.20%
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	4.73%	4.02%
Used for net periodic pension cost	4.02%	4.20%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 5.02% to 5.73% decreased the projected benefit obligation by \$208,658 for the year ended December 31, 2024. The change in the interest crediting rate from 4.02% to 4.73% increased the projected benefit obligation by \$152,710 for the year ended December 31, 2024.

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

2025	\$	249,188
2026		256,001
2027		261,964
2028		266,204
2029		267,631
2030-2034		1,347,977

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, 2024, UPMC employed 157 external investment managers to handle the investment of the assets in the pension portfolio. Of these, 8 managers manage equity investments, 8 manage fixed income investments and 141 managers oversee alternative investment strategies. The largest allocation to any alternative investment manager is \$53,100 as of December 31, 2024. Unfunded commitments due to investments within the Plans, funded with Plan assets, are \$236,424 and \$288,169 as of December 31, 2024 and 2023, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following is a summary of the pension plan asset allocations at December 31, 2024 and 2023:

	2024	2023	2024 Target
Nonalternative investments:			
Fixed income	13.3%	11.3%	13.0%
Domestic equity	25.1%	20.7%	30.0%
International equity	9.9%	16.2%	12.0%
Total nonalternative investments	48.3%	48.2%	55.0%
Real assets:			
Real estate	4.9%	5.2%	4.0%
Income opportunities	1.2%	2.0%	2.0%
Natural resources	4.5%	5.0%	4.0%
Total real assets	10.6%	12.2%	10.0%
Alternative investments:			
Long/short equity	13.1%	9.7%	13.0%
Absolute return	6.7%	7.2%	7.0%
Private equity	21.3%	22.7%	15.0%
Total alternative investments	41.1%	39.6%	35.0%
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

The fair values of the Plans' assets at December 31, 2024, 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	\$ 681,850	\$ 1,359	\$ -	\$ -	\$ 683,209
International equity	201,436	-	-	-	201,436
U.S. REITS	36,647	-	-	-	36,647
Fixed income:					
Government securities	-	59,436	-	-	59,436
Corporate debt instruments	-	56,778	-	-	56,778
Asset and mortgage-backed securities	-	82,483	-	-	82,483
Bond mutual funds	78,243	-	-	-	78,243
Active equity	9,793	76,561	-	-	86,354
Absolute return	42	13,086	-	-	13,128
Other investments	-	-	-	1,567,835	1,567,835
Plans' assets at fair value	\$ 1,008,011	\$ 289,703	\$ -	\$ 1,567,835	\$ 2,865,549

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
Corporate debt instruments	-	47,347	-	-	47,347
Asset and mortgage-backed securities	-	74,043	-	-	74,043
Bond mutual funds	105,107	-	-	-	105,107
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

10. HEALTH INSURANCE REVENUE AND COSTS

Health care costs were \$14,825,681 and \$13,465,127, of which \$3,598,119 and \$3,341,480 were eliminated in consolidation representing medical services performed by UPMC provider entities for the years ended December 31, 2024 and 2023, 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, 2024 were the completion and trend factors.

	2024	2023
Reserve for physical health care costs (beginning balance)	\$ 755,718	\$ 647,537
Add: Provisions for medical costs occurring in:		
Current year	13,474,141	12,097,561
Prior year	(11,981)	(13,028)
Net incurred medical costs	13,462,160	12,084,533
Deduct: Payments for claims occurring in:		
Current year	12,649,507	11,341,843
Prior year	743,737	634,509
Net paid medical costs	13,393,244	11,976,352
Reserve for physical health care costs (ending balance)	\$ 824,634	\$ 755,718

The foregoing rollforward shows favorable development of \$11,981 and \$13,028 for the years ended December 31, 2024 and 2023, 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 statements of operations and changes in net assets and consolidated balance sheets 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Incurred claims development for the years ended December 31, 2024, 2023 and 2022 are as follows:

	(Unaudited) December 31, 2022	(Unaudited) December 31, 2023	December 31, 2024
December 31, 2022	\$ 10,622,623	\$ 10,609,595	\$ 10,609,595
December 31, 2023		12,097,561	12,085,580
December 31, 2024			13,474,141
			\$ 36,169,316

Paid claims development for the years ended December 31, 2024, 2023 and 2022 are as follows:

	(Unaudited) December 31, 2022	(Unaudited) December 31, 2023	December 31, 2024
December 31, 2022	\$ 9,975,085	\$ 10,609,595	\$ 10,609,595
December 31, 2023		11,341,843	12,085,580
December 31, 2024			12,649,507
			\$ 35,344,682

At December 31, 2024, 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, 2024, 2023 and 2022 are as follows:

	Total IBNR and Expected Development on Reported Claims	(Unaudited) Cumulative Number of Reported Claims*
December 31, 2022	\$ -	27,268
December 31, 2023	-	29,034
December 31, 2024	824,634	31,279
Total	\$ 824,634	87,581

* 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 \$1,896,004 and \$1,740,233 at December 31, 2024 and 2023, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 issued prior to January 1, 2022, 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 \$599,072 and \$549,323, discounted at 4.00% and 4.25% (which approximates the risk-free rates), were recorded as of December 31, 2024 and 2023, respectively. At December 31, 2024 and 2023, respectively, \$147,954 and \$123,596 of the loss reserves are included in current portion of insurance reserves and \$451,118 and \$425,727 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, 2024 and 2023.

	2024	2023
Reserve for professional and general liability costs (beginning balance)	\$ 549,323	\$ 541,413
Add: Provisions for claims expenses occurring in:		
Current year	149,895	143,486
Prior year	33,830	6,469
Change in discount rate	4,570	(11,697)
Net incurred claims expenses	188,295	138,258
Deduct: Payments for claims expenses occurring in:		
Current year	319	10,309
Prior year	135,629	118,824
Net paid claims expenses	135,948	129,133
Changes in other reserves	(2,598)	(1,215)
Reserve for professional and general liability costs (ending balance)	\$ 599,072	\$ 549,323

The foregoing rollforward shows unfavorable development of \$33,830 and \$6,469 for the years ended December 31, 2024 and 2023, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2024. The information about incurred and paid claims development for the years ended December 2015 to 2023 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Unaudited									
2015	\$ 96,593	\$ 102,111	\$ 89,569	\$ 88,801	\$ 83,033	\$ 80,946	\$ 79,273	\$ 79,446	\$ 80,648	\$ 86,729
2016	-	90,844	94,155	91,655	84,615	73,214	72,195	71,692	72,184	76,992
2017	-	-	100,732	99,428	104,403	103,570	100,146	99,861	89,391	90,596
2018	-	-	-	100,781	97,451	96,836	93,128	89,834	90,876	93,044
2019	-	-	-	-	103,995	106,787	109,126	109,640	99,129	104,570
2020	-	-	-	-	-	108,482	109,915	112,983	105,765	105,644
2021	-	-	-	-	-	-	125,437	125,368	126,944	130,226
2022	-	-	-	-	-	-	-	138,402	134,611	135,647
2023	-	-	-	-	-	-	-	-	143,486	146,558
2024	-	-	-	-	-	-	-	-	-	149,895
	Total									\$ 1,119,901

DIRECT CLAIM LOSS PAID

Accident Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Unaudited									
2015	\$ 355	\$ 16,914	\$ 26,838	\$ 48,191	\$ 58,646	\$ 65,427	\$ 68,562	\$ 70,716	\$ 72,721	\$ 80,566
2016	-	446	6,375	14,220	27,736	39,232	46,946	50,379	60,763	71,185
2017	-	-	1,610	10,168	27,867	50,244	55,202	60,770	74,538	77,839
2018	-	-	-	251	3,555	22,235	37,270	44,465	62,372	69,389
2019	-	-	-	-	216	13,936	25,751	40,448	54,122	70,505
2020	-	-	-	-	-	759	12,369	25,494	31,713	55,506
2021	-	-	-	-	-	-	363	18,416	28,271	48,619
2022	-	-	-	-	-	-	-	510	6,662	28,038
2023	-	-	-	-	-	-	-	-	10,309	15,508
2024	-	-	-	-	-	-	-	-	-	319
	Total									\$ 517,474

Net reserves **\$ 602,427**

Other reserves	41,357
Risk retention group	28,396
Discount adjustment	(73,108)
Total reserves	\$ 599,072

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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
1.1%	7.7%	12.6%	18.2%	15.7%	11.3%	7.8%	6.0%	5.8%	13.8%

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, 2024	Total Incurred but Not Reported as of December 31, 2024	Cumulative Number of Claims Reported as of December 31, 2024
2015	\$ 86,729	\$ -	307
2016	76,992	320	277
2017	90,596	7,832	272
2018	93,044	17,292	276
2019	104,570	20,490	304
2020	105,644	30,989	218
2021	130,226	40,242	225
2022	135,647	75,202	295
2023	146,558	105,141	200
2024	149,895	145,780	65

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2024 and 2023, UPMC incurred expenses of \$253,000 and \$247,300, respectively, for academic and research support. Payments to the University that are core to UPMC’s missions related to providing clinical care totaled \$192,341 and \$172,591 for the years ended December 31, 2024 and 2023, 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	
	2024	2023
Finance lease cost:		
Depreciation	\$ 22,942	\$ 21,600
Interest on lease liabilities	2,066	1,851
Total finance lease cost	25,008	23,451
Operating lease cost	172,143	155,304
Short-term/variable lease cost	25,498	28,551
Total	\$ 222,649	\$ 207,306

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

Supplemental balance sheet information related to leases was as follows:

	Year Ended December 31	
	2024	2023
OPERATING LEASES		
Operating lease right-of-use assets	\$ 826,428	\$ 738,064
Other current liabilities	147,874	138,039
Operating lease liabilities	787,352	707,447
Total operating lease liabilities	\$ 935,226	\$ 845,486
FINANCE LEASES		
Property, plant and equipment, net	\$ 67,778	\$ 62,139
Current portion of long-term obligations	19,881	19,502
Long-term obligations	51,841	46,181
Total finance lease liabilities	\$ 71,722	\$ 65,683
WEIGHTED AVERAGE REMAINING LEASE TERM		
Operating leases	10.9 years	9.3 years
Finance leases	7.1 years	6.8 years
WEIGHTED AVERAGE DISCOUNT RATE		
Operating leases	3.0%	2.9%
Finance leases	3.1%	3.1%

Undiscounted maturities of lease liabilities were as follows:

For the Years Ended December 31	Operating Leases	Finance Leases
2025	\$ 172,373	\$ 20,002
2026	153,042	17,530
2027	132,357	12,361
2028	118,031	7,404
2029	103,893	2,701
Thereafter	412,934	14,967
Total undiscounted maturities of lease liabilities	\$ 1,092,630	\$ 74,965
Less: discount on lease liabilities	(157,404)	(3,243)
Total lease liabilities	\$ 935,226	\$ 71,722

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 December 31, 2024 and December 31, 2023 calendar years.

As of December 31, 2024, the for-profit entities of UPMC had gross federal net operating loss ("NOL") carryforwards of \$1,118,071 (expiring in years 2025 through 2044) and gross state (primarily related to Pennsylvania) NOL carryforwards of \$2,083,686 (expiring in years 2025 through 2044) 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, which resulted in a reevaluation 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, 2024 and December 31, 2023, UPMC realized tax benefits of \$1,096 and \$84, 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	2024	2023
Taxes computed at the federal rate	\$ (1,338)	\$ (35,592)
State income taxes, net of federal tax benefit	4,408	2,235
Valuation allowance	36,666	23,011
Permanent differences	(3,373)	9,907
Other items, net	(28,045)	13,207
Income tax expense	\$ 8,318	\$ 12,768

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

The following table presents deferred tax assets as of December 31, 2024 and 2023:

	2024	2023
Deferred tax assets:		
Net operating losses	\$ 318,102	\$ 288,157
Accrued benefits	24,875	23,083
Other	52,758	22,230
	395,735	333,470
Less valuation allowance	(395,735)	(333,470)
	\$ -	\$ -

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, 2024, 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, 2024, UPMC's returns for the calendar years ended December 31, 2021, through December 31, 2023, are open for examination by the various taxing authorities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2024 and 2023, expenses related to providing these services were as follows:

FOR THE YEAR ENDED DECEMBER 31, 2024

	Hospital & health care services	Insurance services	Academic & research activities	UPMC Enterprises activity	Admin support	Total
Salaries, professional fees and employee benefits	\$ 8,290,941	\$ 659,006	\$ -	\$ -	\$ 1,018,216	\$ 9,968,163
Insurance claims expense	-	11,227,562	-	-	-	11,227,562
Supplies, purchased services and general	6,626,319	918,330	-	-	634,208	8,178,857
Depreciation and amortization	505,952	5,606	-	-	191,002	702,560
Academic and research support provided	-	-	253,000	-	-	253,000
Restructuring costs	73,582	37,873	-	-	16,546	128,001
Income tax expense	-	-	-	-	8,318	8,318
Interest expense	228,410	-	-	-	-	228,410
Portfolio company and development expense	-	-	83,265	183,713	-	266,978
	\$ 15,725,204	\$ 12,848,377	\$ 336,265	\$ 183,713	\$ 1,868,290	\$ 30,961,849

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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:

	2024	2023
Technology research and development costs	\$ (53,311)	\$ (58,076)
Investments in translational sciences	(29,954)	(24,823)
Revenue from portfolio companies with controlling interest	106,971	74,533
Expenses of portfolio companies with controlling interest	(174,884)	(155,901)
Net loss from non-consolidated interest in portfolio companies	(8,829)	(2,209)
Net gains from technology-related investments	35,952	48,343
UPMC Enterprises activity	\$ (124,055)	\$ (118,133)

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

18. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to December 31, 2024 through March 4, 2025, 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, 2024
(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	\$ 36,771	\$ 2,013	\$ -	\$ 1,574	\$ 40,358	\$ 933,739	\$ 974,097
Patient accounts receivable	62,498	(31)	-	6,048	68,515	1,592,795	1,661,310
Insurance and other receivables	(4,927)	12	1,212	8,421	4,718	1,810,611	1,815,329
Other Current Assets	1,425	-	-	(75,537)	(74,112)	929,833	855,721
Total current assets	\$ 95,767	\$ 1,994	\$ 1,212	\$ (59,494)	\$ 39,479	\$ 5,266,978	\$ 5,306,457
Board-designated, restricted, trustee and other investments	6,123	21,387	-	12,938	40,448	7,878,470	7,918,918
Beneficial interests in foundation and trusts	-	2,282	-	-	2,282	799,688	801,970
Property, buildings, and equipment:							
Land and Land Improvement	16,670	-	-	-	16,670	558,769	575,439
Buildings and fixed equipment	195,215	-	-	5,365	200,580	9,500,051	9,700,631
Movable equipment	46,931	-	-	3,833	50,764	3,639,721	3,690,485
Finance leases	606	-	-	229	835	128,940	129,775
Construction in progress	1,679	-	-	-	1,679	882,914	884,593
	261,101	-	-	9,427	270,528	14,710,395	14,980,923
Less allowance for depreciation	(95,690)	-	-	(4,617)	(100,307)	(7,882,802)	(7,983,109)
	165,411	-	-	4,810	170,221	6,827,593	6,997,814
Operating lease right-of-use assets	-	-	-	-	-	826,428	826,428
Other assets	85,754	155	-	4	85,913	829,235	915,148
Total Assets	\$ 353,055	\$ 25,818	\$ 1,212	\$ (41,742)	\$ 338,343	\$ 22,428,392	\$ 22,766,735
Accounts payable and accrued expenses	6,047	-	-	78	6,125	948,331	954,456
Accrued salaries and related benefits	-	-	-	-	-	1,121,930	1,121,930
Current portion of insurance reserves	(4)	-	-	13,726	13,722	1,357,859	1,371,581
Current portion of long-term obligations	392	-	-	-	392	537,857	538,249
Other current liabilities	15,092	-	-	184	15,276	675,281	690,557
Total Current Liabilities	\$ 21,527	\$ -	\$ -	\$ 13,988	\$ 35,515	\$ 4,641,258	\$ 4,676,773
Long-term obligations	177	-	-	-	177	6,110,730	6,110,907
Long-term insurance reserves	-	-	-	-	-	470,580	470,580
Operating leases noncurrent liabilities	-	-	-	-	-	787,352	787,352
Other noncurrent liabilities	-	-	-	-	-	557,218	557,218
Total Liabilities	\$ 21,704	\$ -	\$ -	\$ 13,988	\$ 35,692	\$ 12,567,138	\$ 12,602,830
Net assets without donor restrictions	330,518	16,677	1,212	(55,730)	292,677	8,536,422	8,829,099
Net assets with donor restrictions	833	9,141	-	-	9,974	1,324,832	1,334,806
Total net assets	\$ 331,351	\$ 25,818	\$ 1,212	\$ (55,730)	\$ 302,651	\$ 9,861,254	\$ 10,163,905
Total liabilities and net assets	\$ 353,055	\$ 25,818	\$ 1,212	\$ (41,742)	\$ 338,343	\$ 22,428,392	\$ 22,766,735

UPMC
Supplemental Consolidating Statement of Operations
For the Year Ended December 31, 2024
(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	\$	362,214	\$	-	\$	-	\$	23,119	\$	385,333	\$	11,794,847	\$	12,180,180
Insurance enrollment revenue		-		-		-		-		-		15,112,377		15,112,377
Other revenue		8,886		446		-		2,356		11,688		2,562,021		2,573,709
Total operating revenues	\$	371,100	\$	446	\$	-	\$	25,475	\$	397,021	\$	29,469,245	\$	29,866,266
Salaries, professional fees and employee benefits		172,266		464		-		41,175		213,905		9,754,258		9,968,163
Insurance claims expense		-		-		-		-		-		11,227,562		11,227,562
Supplies, purchased services and general		116,194		1,522		-		18,383		136,099		8,042,758		8,178,857
Depreciation and amortization		21,459		-		-		703		22,162		680,398		702,560
Total operating expenses	\$	309,919	\$	1,986	\$	-	\$	60,261	\$	372,166	\$	29,704,976	\$	30,077,142
Operating income (loss) prior to restructuring costs	\$	61,181	\$	(1,540)	\$	-	\$	(34,786)	\$	24,855	\$	(235,731)	\$	(210,876)
Restructuring Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	(128,001)	\$	(128,001)
Operating income (loss)	\$	61,181	\$	(1,540)	\$	-	\$	(34,786)	\$	24,855	\$	(363,732)	\$	(338,877)
Academic and research support provided		-		-		-		-		-		(253,000)		(253,000)
Inherent contribution from affiliations		-		-		-		-		-		220,538		220,538
Income tax and other non-operating expenses		-		-		-		-		-		24,871		24,871
After-tax income	\$	61,181	\$	(1,540)	\$	-	\$	(34,786)	\$	24,855	\$	(371,323)	\$	(346,468)
Investing and financing activities:														
Investment revenue		9,523		4,157		-		-		13,680		666,243		679,923
Interest expense		(7,618)		-		-		-		(7,618)		(220,792)		(228,410)
Gain on extinguishment of debt		-		-		-		-		-		216		216
UPMC Enterprises activity:														
Portfolio company revenue		-		-		-		-		-		142,923		142,923
Portfolio company and development expense		-		-		-		-		-		(266,978)		(266,978)
(Loss) gain from investing and financing activities	\$	1,905	\$	4,157	\$	-	\$	-	\$	6,062	\$	321,612	\$	327,674
Excess of revenues over expenses (expenses over revenues)		63,086		2,617		-		(34,786)		30,917		(49,711)		(18,794)
Excess of (expenses over revenues) attributable to noncontrolling interest		-		-		-		(2,437)		(2,437)		6,543		4,106
Excess of revenues over expenses (expenses over revenues) attributable to controlling interest	\$	63,086	\$	2,617	\$	-	\$	(37,223)	\$	28,480	\$	(43,168)	\$	(14,688)