

# **University of Pennsylvania Health System**

**Combined Financial Statements and Combining  
Supplementary Data  
June 30, 2019 and 2018**

# University of Pennsylvania Health System

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June 30, 2019 and 2018

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## Report of Independent Auditors

To the Trustees of the University of Pennsylvania:

We have audited the accompanying combined financial statements of the University of Pennsylvania Health System (UPHS), which comprise the combined balance sheets as of June 30, 2019 and 2018, and the related combined statements of operations, changes in net assets and cash flows for the years then ended.

### ***Management's Responsibility for the Combined Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the UPHS' preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the UPHS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the University of Pennsylvania Health System as of June 30, 2019 and 2018, and the results of its operations, its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Emphasis of Matter***

As discussed in Note 2 to the combined financial statements, UPHS changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual entities and is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual entities.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

September 26, 2019

**University of Pennsylvania Health System**  
**Combined Balance Sheets**  
**June 30, 2019 and 2018 (thousands of dollars)**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 779,099	\$ 990,383
Patient receivables, net	826,940	753,599
Third party payer receivables	3,995	4,873
Due from the University of Pennsylvania	-	7,475
Other current assets	266,159	235,838
Total current assets	<u>1,876,193</u>	<u>1,992,168</u>
Assets whose use is limited		
Held by trustees	163,598	274,300
RRG\Captive	219,879	207,403
Designated	2,731,038	2,584,262
Donor-restricted investments	678,137	648,104
	<u>3,792,652</u>	<u>3,714,069</u>
Investments	890,882	936,280
Property and equipment, net	4,760,563	4,103,777
Other assets	261,349	267,935
Total assets	<u>\$ 11,581,639</u>	<u>\$ 11,014,229</u>
<b>Liabilities and Net Assets</b>		
Current		
Accounts payable	\$ 263,559	\$ 212,064
Accrued expenses	865,284	734,116
Current portion of long-term debt	47,017	97,678
Due to the University of Pennsylvania	5,215	-
Third party payer settlements	62,813	66,522
Total current liabilities	<u>1,243,888</u>	<u>1,110,380</u>
Long-term debt, net of current portion	2,283,002	2,274,859
Third party payer settlements, net of current portion	7,238	7,457
Other liabilities	859,668	877,347
Pension and postretirement benefit liability	1,266,067	949,174
Total liabilities	<u>5,659,863</u>	<u>5,219,217</u>
Net assets		
Net assets without donor restriction	5,234,000	5,137,511
Net assets with donor restriction	687,776	657,501
Total net assets	<u>5,921,776</u>	<u>5,795,012</u>
Total liabilities and net assets	<u>\$ 11,581,639</u>	<u>\$ 11,014,229</u>

See accompanying notes to combined financial statements.

**University of Pennsylvania Health System**  
**Combined Statements of Operations**  
**Years Ended June 30, 2019 and 2018 (thousands of dollars)**

	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Net patient service revenue before provision for bad debts		\$ 6,417,674
Provision for bad debts		(164,763)
Net patient service revenue	\$ 6,940,977	6,252,911
Other revenue	653,071	529,240
Total revenues	<u>7,594,048</u>	<u>6,782,151</u>
<b>Expenses</b>		
Salaries and wages	3,205,444	2,880,679
Employee benefits	821,337	754,179
Supplies and other expenses	2,629,126	2,275,906
Depreciation and amortization	332,813	309,259
Malpractice	94,117	104,433
Interest	53,755	55,123
Perelman School of Medicine (PSOM) support	19,770	19,844
Total expenses	<u>7,156,362</u>	<u>6,399,423</u>
Excess of revenue over expenses from operations	437,686	382,728
<b>Nonoperating gain (loss)</b>		
Interest and dividends	77,395	42,879
Net realized gain, contributions and other support	210,592	128,942
Princeton HealthCare System membership substitution	-	398,493
Change in unrealized gain (loss) on alternative investments	36,038	120,364
Excess of revenue over expenses	761,711	1,073,406
Change in unrealized gain (loss) on other investments	(97,576)	19,848
Transfers to PSOM and University, net	(240,393)	(203,268)
Net assets released from restrictions for capital	5,212	2,426
Pension and other postretirement plan adjustments	(332,465)	151,812
Increase in net assets without donor restriction	<u>\$ 96,489</u>	<u>\$ 1,044,224</u>

See accompanying notes to combined financial statements.

**University of Pennsylvania Health System**  
**Combined Statements of Changes in Net Assets**  
**Years Ended June 30, 2019 and 2018 (thousands of dollars)**

	<b>Net assets without donor restriction</b>	<b>Net assets with donor restriction</b>	<b>Total</b>
<b>Net assets, June 30, 2017</b>	<b>\$ 4,093,287</b>	<b>\$ 590,543</b>	<b>\$ 4,683,830</b>
Excess of revenue over expenses	1,073,406	-	1,073,406
Change in unrealized gain on investments	19,848	-	19,848
Pension and other postretirement plan adjustments	151,812	-	151,812
Contributions and investment income	-	30,864	30,864
Net assets released from restrictions for			
Operations	-	(25,185)	(25,185)
Capital	2,426	(2,426)	-
Net realized and unrealized gain on restricted funds		45,289	45,289
Princeton HealthCare System membership substitution	-	18,416	18,416
Transfer to PSOM and University, net	(203,268)		(203,268)
Increase in net assets	<u>1,044,224</u>	<u>66,958</u>	<u>1,111,182</u>
<b>Net assets, June 30, 2018</b>	<b>5,137,511</b>	<b>657,501</b>	<b>5,795,012</b>
Excess of revenue over expenses	761,711		761,711
Change in unrealized gain on investments	(97,576)		(97,576)
Pension and other postretirement plan adjustments	(332,465)		(332,465)
Contributions and investment income		37,058	37,058
Net assets released from restrictions for			
Operations	-	(25,795)	(25,795)
Capital	5,212	(5,212)	-
Net realized and unrealized gain on restricted funds	-	24,224	24,224
Transfer to PSOM and University, net	(240,393)		(240,393)
Increase in net assets	<u>96,489</u>	<u>30,275</u>	<u>126,764</u>
<b>Net assets, June 30, 2019</b>	<b>\$ 5,234,000</b>	<b>\$ 687,776</b>	<b>\$ 5,921,776</b>

See accompanying notes to combined financial statements.

**University of Pennsylvania Health System**  
**Combined Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018 (thousands of dollars)**

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 126,764	\$ 1,111,182
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	320,350	300,041
Gain on asset transaction	(10,399)	-
Increase (decrease) from changes in		
Patient receivables	(73,341)	(20,789)
Other current assets	(30,321)	(23,843)
Other assets	5,722	(13,007)
Accounts payable and accrued expenses	131,631	118,178
Estimated third party payer settlements	(3,050)	20,090
Due from University of Pennsylvania	12,690	(37,690)
Other liabilities	(17,337)	16,851
Pension and postretirement benefit liability	(15,572)	(23,244)
Princeton HealthCare System membership substitution	-	(416,909)
Net realized and unrealized gain on investments	(168,215)	(314,057)
Transfers, restricted contributions and pension adjustment	558,487	46,053
Net cash provided by operating activities	<u>837,409</u>	<u>762,856</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(974,916)	(615,818)
Purchases of assets whose use is limited and investments	(1,725,885)	(1,220,283)
Sale of assets whose use is limited and investments	1,749,420	1,159,194
Release of funds held by trustee for capital	169,397	142,297
Princeton Health System membership substitution	-	46,440
Net cash used for investing activities	<u>(781,984)</u>	<u>(488,170)</u>
<b>Cash flows from financing activities</b>		
Repayment of long-term debt and notes payable	(120,488)	(43,201)
Cost of issuance of debt	-	(3,718)
Proceeds from restricted contributions	7,172	5,402
Proceeds from issuance of long-term debt	87,000	370,305
Transfers and other	(240,393)	(203,268)
Net cash used for financing activities	<u>(266,709)</u>	<u>125,520</u>
Net decrease in cash and cash equivalents	(211,284)	400,206
<b>Cash and cash equivalents</b>		
Beginning of year	<u>990,383</u>	<u>590,177</u>
End of year	<u>\$ 779,099</u>	<u>\$ 990,383</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest, net of amount capitalized	\$ 57,812	\$ 54,547
Purchases of property and equipment included in accounts payable	\$ 114,554	\$ 64,547

See accompanying notes to combined financial statements.



# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### 1. Organization

The University of Pennsylvania Health System (UPHS or Health System) includes the following operating entities: Clinical Practices of the University of Pennsylvania (CPUP), Clinical Care Associates (CCA), Hospital of the University of Pennsylvania (HUP), Penn Presbyterian Medical Center (PPMC), Pennsylvania Hospital of the University of Pennsylvania Health System (PAH-UPHS), Chester County Hospital and Health System (TCCHHS), Lancaster General Health (LGH), Princeton HealthCare System (PHCS) and Wissahickon Hospice of the University of Pennsylvania Health System. In addition, the activities of UPHS' risk retention program, supported and administered by Franklin Casualty Insurance Company (FCI), a wholly owned Risk Retention Group and Quaker Insurance Company Ltd. (QIC), a wholly owned offshore captive insurance company (collectively referred to as RRG/Captive), are included in the combined financial statements.

UPHS and the University of Pennsylvania Perelman School of Medicine (PSOM) operate under the governance of Penn Medicine. The governing body, approved by the University, operates, oversees, and coordinates the academic, research, and clinical missions of Penn Medicine. Penn Medicine replaced the prior multiple governing boards of UPHS and the PSOM, all of which were dissolved, with this single governing board. UPHS is a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. The University (as to HUP and CPUP), CCA, PPMC, PAH-UPHS, TCCHHS, Lancaster General Health, Lancaster General Hospital, Princeton Healthcare System, and Wissahickon Hospice of the University of Pennsylvania Health System are sometimes referred to herein as the "Obligated Group." In addition, UPHS is included in the financial statements of the Trustees of the University of Pennsylvania (University).

#### 2. Significant Accounting Policies

##### Presentation

The University of Pennsylvania Health System Combined Financial Statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

UPHS has revised its classification of certain prior year balances to conform to current year presentation.

##### Princeton HealthCare System

Effective January 1, 2018, the University and Princeton HealthCare System entered into an affiliation agreement whereby the University became the sole corporate member of PHCS. PHCS is a comprehensive healthcare provider located in central New Jersey that principally includes the Medical Center of Princeton, a general acute care hospital facility in Plainsboro, New Jersey, with 319 inpatient beds (plus 24 newborn bassinets), and Princeton House Behavioral Health, which includes a 110 bed inpatient facility in Princeton, New Jersey, and four additional outpatient locations. PHCS includes approximately 1,200 physicians on staff and employs approximately 3,200 people.

No consideration was exchanged for the net assets contributed and acquisition costs were expensed as incurred. In accordance with applicable accounting guidance on not-for-profit mergers and acquisitions (ASC 958), UPHS recorded non-operating contribution income of \$398,493,000 in fiscal year 2018 reflecting the fair value of the contributed net assets without donor restriction of PHCS on January 1, 2018. Restricted contribution income of \$18,416,000 was recorded in net assets with donor restriction.

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**2 Significant Accounting Policies (continued)**

Total fair value of assets, liabilities and net assets contributed by PHCS and its subsidiaries at January 1, 2018 were as follows (in thousands):

Cash and cash equivalents	\$ 46,440
Patient accounts receivable, net	43,895
Prepaid expenses and other current assets	17,533
Investments and assets limited as to use	213,460
Property, plant, and equipment, net	491,877
Other assets	<u>30,540</u>
Total assets acquired	<u>\$ 843,745</u>
Accounts payable and accrued expense	\$ 75,954
Accrued compensation and related benefits	32,962
Estimated third-party settlements	7,099
Long-term debt	293,861
Other liabilities	<u>16,960</u>
Total liabilities assumed	<u>426,836</u>
Net assets without donor restriction	398,493
Net assets with donor restriction	<u>18,416</u>
Total net assets	<u>416,909</u>
Total liabilities and net assets	<u>\$ 843,745</u>

A summary of the pro-forma combined financial results of UPHS and PHCS for the year ended June 30, 2018, as if the affiliation had occurred on July 1, 2017, excluding the contribution associated with the membership substitution, is as follows (unaudited):

*(amounts in thousands)*

	<u><b>June 30,</b></u> <u><b>2018</b></u>
Total revenues	\$ 7,020,438
Total expenses	<u>6,636,843</u>
Excess of revenues over expenses from operations	383,595
Nonoperating activity, net	<u>275,329</u>
Increase in net assets without donor restriction	<u>\$ 658,924</u>

# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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## 2. Significant Accounting Policies (continued)

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management include the valuation of alternative investments, the estimated net realizable value of patient and contributions receivables and the actuarially determined pension and other postretirement benefits, malpractice and self-insurance reserves.

### Cash and Cash Equivalents

Cash equivalents consist primarily of demand deposits and money market mutual funds, which would be considered a Level 1 investment under the fair value hierarchy. Investments in highly liquid debt instruments with original maturities of three months or less when purchased are included in cash and cash equivalents. The carrying amount of cash and cash equivalents are at fair value based on quoted market prices.

### Investments and Investment Income

Investments and assets limited as to use include assets set aside by management for future purposes, including capital improvements and self-insurance funds, and are not for trading. Certain investments have been restricted by donors and are designated as donor restricted. The significant portion of these assets are invested in the University's Associated Investment Fund (A.I.F.), which is described in greater detail below. The remaining assets are managed in separate investment portfolios.

Realized gains and losses on investments and changes in unrealized gains and losses on alternative investments are reported as a component of excess of revenue over expenses. The change in unrestricted unrealized gains and losses on investments are reported below the excess of revenue over expenses. Investment income or loss, realized and unrealized gains and losses on investments of donor restricted funds are added to or deducted from the appropriate net asset category based on the donor's restriction. A write down in the cost basis of investments is recorded when the decline in fair value of investments has been judged to be other than temporary. Depending on any donor-imposed restrictions on the underlying investments, the amount of the write down is reported as a realized loss in either net assets with donor restriction or in excess of revenue over expenses, with no adjustment in the cost basis for subsequent recoveries in fair value. There were no other-than-temporary write downs reported for the years ended June 30, 2019 and June 30, 2018.

### Assets Whose Use Is Limited (AWUIL)

Assets whose use is limited are comprised of cash, investments and pledges, which are reported at fair or net realizable value. These assets include assets held by trustees under indenture agreements or self-insurance trust arrangements, assets of self-insurance captives used to settle malpractice claims, assets for other retirement benefits, assets set aside by management for future purposes, over which they retain control and may subsequently use for other purposes, and donor-restricted funds (Endowments, Specific Purpose and Plant Replacement and Expansion Funds and Contributions Receivable). Contributions receivable are recognized as increases to net assets in the period received, at their fair value, net of discounts and allowances.

# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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## 2. Significant Accounting Policies (continued)

### Fair Value

UPHS values certain financial and nonfinancial assets and liabilities by applying the FASB pronouncements on *Fair Value Measurements*. The pronouncement defines fair value and establishes a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of UPHS as follows:

- Level 1      Unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2      Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable.
- Level 3      Unobservable inputs for the asset or liability.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. UPHS is required by the pronouncement to maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3). UPHS considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to UPHS' perceived risk of that instrument.

Assets and liabilities are disclosed in the Notes to Combined Financial Statements within the hierarchy based on the lowest (or least observable) input that is significant to the measurement. UPHS' assessment of the significance of an input requires judgment, which may affect the valuation and categorization within the fair value hierarchy. The fair value of assets and liabilities using Level 3 inputs are generally determined by using pricing models or discounted cash flow methods, which all require significant management judgment or estimation.

As a practical expedient, UPHS is permitted under the pronouncement to estimate the fair value of an investment in an investment company at the measurement date using the reported net asset value (NAV). Adjustment is required if the Health System expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US generally accepted accounting principles (US GAAP).

# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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## 2. Significant Accounting Policies (continued)

### **Associated Investment Fund (A.I.F.)**

The A.I.F. is a diversified pooled investment vehicle available solely to the University, its affiliates and subsidiaries. The A.I.F. is invested in accordance with the investment policies set out by an Investment Board which has been appointed by the Trustees of the University. The Office of Investments is responsible for the day-to-day management of the A.I.F. including identifying, selecting and monitoring a variety of external investment managers to implement the strategic asset allocation set forth by the Investment Board. Unrestricted realized gain/(loss) and the change in unrealized gain/(loss) on alternative investments are reported as a component of the excess of revenue over expenses. The change in unrestricted unrealized gain/(loss) from other investments are reported in the change in net assets, while realized gain/(loss) are reported as a component of the excess of revenue over expenses. The fair value of the A.I.F. represents UPHS' ownership in the underlying fair value of the assets as determined by the University.

### **Investment Allocation**

The following is a summary of the investments held by UPHS by asset allocation.

### ***Short-Term (A.I.F., Investments and Pension)***

Short-term investments include cash equivalents and fixed income investments with maturities of less than one year. Short-term investments are valued using observable market data and are categorized as Level 1 based on quoted market prices in active markets. The majority of these short-term investments are held in a US Treasury money market account.

### ***Equity (A.I.F., Investments and Pension)***

Equity investments consist of direct holdings of public securities in managed accounts as well as exchange traded funds and private funds. The securities held in managed accounts, along with exchange traded funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. Private funds are valued at NAV.

### ***Absolute Return (A.I.F., Investments and Pension)***

Absolute return investments are made up of allocations to private funds. The fund managers of these private funds invest in a variety of securities, based on the strategy of the fund, which may or may not be quoted in an active market. Private funds are valued at NAV.

### ***Debt (A.I.F., Investments and Pension)***

Debt investments consist of direct holdings of securities in managed accounts and private funds. Securities such as US Treasuries, held in managed accounts, are valued based on quoted market prices in active markets and are categorized as Level 1. Securities such as corporate bonds, high yield bonds and bank loans, also held in managed accounts, are valued based on quoted market prices or dealer or broker quotations and are categorized as Level 2 or in the cases where inputs are unobservable as Level 3. Private funds are valued at NAV.

# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### 2. Significant Accounting Policies (continued)

##### ***Private Equity (A.I.F., Investments and Pension)***

Investments in private equity are in the form of close-ended private funds. The fund managers primarily invest in investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These private fund investments are valued at NAV.

##### ***Real Estate (A.I.F. and Pension)***

Investments in real estate are primarily in the form of private funds. The fund managers of these private funds primarily invest in investments for which there is no readily determinable market value. The fund manager may value the underlying investments based on an appraised value, discounted cash flow, industry comparables or some other method. Private funds are valued at NAV.

##### ***Natural Resources (A.I.F., Investments and Pension)***

Investments in natural resources are made up of private funds and securities in managed accounts. The fund managers of these private funds primarily invest in investments for which there is no readily determinable market value. The fund manager may value the underlying investments based on an appraised value, discounted cash flow, industry comparables or some other method. Private funds are valued at NAV. The securities held in the managed accounts are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1.

##### ***Derivatives (A.I.F., Investments and Pension)***

In the normal course of business, UPHS utilizes derivative financial instruments in connection with its investment activity. Derivatives utilized by the UPHS can include futures, options, swaps and forward currency contracts and are reflected at fair value following the definition of Level 1 and 2 assets and liabilities as previously described. Investments in derivative contracts are subject to foreign exchange and equity price risks that can result in a loss of all or part of an investment. In addition, UPHS is also subject to additional counterparty risk should its counterparties fail to meet the terms of their contracts.

##### ***Investment Risk (A.I.F., Investments and Pension)***

The Health System's investing activities expose it to a variety of risks, including market, credit and liquidity risks and attempts to identify, measure and monitor risk through various mechanisms including risk management strategies and credit policies.

Market risk is the potential for changes in the fair value of the UPHS's investment portfolio. Commonly used categories of market risk include currency risk (exposure to exchange rate differences between functional currency relative to other foreign currencies), interest rate risk (changes to prevailing interest rates or changes in expectations of futures rates) and price risk (changes in market value other than those related to currency or interest rate risk, including the use of NAV provided).

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**2. Significant Accounting Policies (continued)**

Credit risk is the risk that one party to a financial investment will cause a financial loss for the other party by failing to discharge an obligation (counterparty risk).

Liquidity risk is the risk that UPHS will not be able to meet its obligations associated with financial liabilities.

Details on the current redemption terms and restrictions by asset class and type of investment are as follows:

<b>Strategy</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions</b>
Short-term	Daily	None
Equity		
Managed accounts	Daily and semi-annually with varying notice periods	None
Mutual funds	Daily	None
Private funds (1)	Weekly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 years and side pocket investments (2)
Debt		
Managed accounts	Daily	None
Private funds (1)	Daily	None; side pocket investments (2)
Absolute return	Range from monthly to annually and close-ended funds not available for redemption	Lock-up provisions ranging from 0 to 5 years with earlier redemptions subject to redemption fee, close-ended funds not available for redemption, and side pocket
Real estate	Close-ended funds not available for redemption	Close-ended funds not available for redemption
Private equity	Close-ended funds not available for redemption	Close-ended funds not available for redemption
Natural resources		
Managed accounts	Daily	None
Private funds (1)	Close-ended funds not available for redemption	Close-ended funds not available for redemption

(1) Private funds consist of close-ended and open-ended funds generally in the form of limited partnerships. Close-ended funds have varying remaining fund terms between 1 to 15 years.

(2) Side pocket investments represents investments designated by a manager that are not available for liquidity in an otherwise liquid fund vehicle.

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**2. Significant Accounting Policies (continued)**

**Property, Equipment and Depreciation**

Property and equipment are stated at cost at the date of acquisition less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Useful lives range from 15 to 40 years for buildings and building improvements and 5 to 20 years for equipment. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Interest cost incurred on borrowed funds during the period of construction of major capital assets is capitalized as a component of the cost of acquiring those assets.

**Intangible Assets**

Goodwill, representing the excess of cost over assets acquired in the 1996 statutory merger of the Presbyterian Medical Center into PPMC, was \$52,850,000. The remaining balance of \$24,888,000 is included in other assets in the accompanying combined balance sheets. As noted below, goodwill is no longer subject to amortization. UPHS performs an annual impairment test of the PPMC reporting unit during the second quarter of the fiscal year. The calculation compares the reporting unit's carrying value to its fair value that is calculated using a discounted cash flow approach, which incorporates market participant data. In addition to the annual impairment test, additional evaluations will be done if circumstances exist that may lead to impairment. There were no goodwill impairments during 2019 or 2018.

**Long-Lived Assets**

UPHS continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, UPHS uses an estimate of the related discounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. An impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based on market prices when available, or discounted cash flows.

**Deferred Financing Fees**

Deferred financing fees at June 30, 2019 and 2018, totaling \$12,691,000 and \$13,244,000, respectively are amortized using the effective interest method over the life of the related debt.

**Self-Insurance**

UPHS accrues for estimated risks arising from both asserted and unasserted medical professional and workers' compensation claims based on historical claims data utilized by an independent actuary.

**Split-Interest Agreements**

UPHS' split-interest agreements with donors consist primarily of irrevocable charitable perpetual trusts and charitable lead trusts. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.



# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### 2. Significant Accounting Policies (continued)

Perpetual trust assets are initially valued at the current market value of the underlying assets using observable market inputs based on its beneficial interest in the trust. The initially contributed assets are categorized as a Level 3 measurement in the fair value hierarchy and are reported as investments, at fair value on the combined balance sheets and as contribution revenue on the combined statements of operations. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to donor-restricted investments, net on the combined statements of changes in net assets.

Charitable remainder trust assets, where UPHS does not serve as the trustee, are initially valued using the current fair value of the underlying assets, using observable market inputs based on its beneficial interest in the trust, discounted to a single present value using current market rates at the date of the contribution. The initially contributed assets are categorized as Level 3, and reported as Investments, at fair value on the combined balance sheet and as contribution revenue on the combined statements of operations. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to donor-restricted investments, net on the combined statements of changes in net assets.

#### **Net Assets**

Net assets are classified for accounting and financial reporting purposes into two net asset categories according to donor imposed restrictions, if any. A description of the two net asset categories is as follows:

Without donor restrictions – includes net assets that are available for the support of operations and whose use is not donor-restricted, although their use may be limited by other factors such as by contract or board designation.

With donor restrictions – includes net assets that are (i) subject to legal or donor-imposed restrictions that will be met by actions of UPHS and/or the passage of time, and (ii) the original values of donor restricted net assets, the use of which is limited to investment and can only be appropriated for expenditure by UPHS in accordance with the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act).

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**2. Significant Accounting Policies (continued)**

**Interest Rate Exchange Agreements**

The Health System enters into interest rate swap agreements to synthetically modify the interest rate terms of its long term debt. The agreements are not entered into for trading or speculative purposes. Fair value of interest rate swap agreements are obtained by quotes from Merrill Lynch, which is based on the income approach that uses observable market data to discount future net payment streams. The quote provided by Merrill Lynch also represents the amount the Health System would accept or be required to pay to transfer the agreement to Merrill Lynch, or exit price as defined by *Fair Value Measurements*. The Health System verifies the reasonableness of the quote provided by Merrill Lynch by comparing it to a similar quote from a swap adviser and the results of similar observable inputs used in a pricing model. The Health System also assesses the risk of nonperformance by reviewing bond ratings, and accordingly considers the agreements to be Level 2 measurements in the fair value hierarchy. The Health System has recognized an asset of \$1,469,000 and \$1,292,000 and liability of \$6,371,000 and \$4,799,000 as of June 30, 2019 and June 30, 2018, respectively, which represents the fair market value of the swaps. Gains/(losses) on the interest rate swap agreements are recorded as non-operating gain/(loss) and the interest component of the swaps are recorded as interest expense in the combined statements of operations.

	Merrill Lynch/ Bank of America	Merrill Lynch/ Bank of America	Merrill Lynch/ Bank of America
Notional amount	\$ 17,950,000	\$ 17,950,000	\$ 22,175,000
Trade date	7/15/2009	1/7/2010	7/28/2006
Maturity date	8/15/2023	8/15/2023	7/1/2041
Rate:			
Receive	3.184%	2.902%	70% of 1-Month LIBOR
Pay	SIFMA	SIFMA	3.980%
Default optional termination at market value	Default by UPHS	Default by UPHS	Default by UPHS
Optional termination at market value	UPHS Only	UPHS Only	UPHS Only
Collateral threshold	AAA/Aaa = Infinite	AAA/Aaa = Infinite	AAA/Aaa = Infinite
	AA(+/-) / Aa(1,2,3) = \$40M	AA(+/-) / Aa(1,2,3) = \$40M	AA(+/-) / Aa(1,2,3) = \$40M
	A(+/-) / A(1,2,3) = \$20M	A(+/-) / A(1,2,3) = \$20M	A(+/-) / A(1,2,3) = \$20M
	A(+/-) / A(1,2,3) = \$20M	A(+/-) / A(1,2,3) = \$20M	A(+/-) / A(1,2,3) = \$20M
	A(+/-) / A(1,2,3) = \$20M	A(+/-) / A(1,2,3) = \$20M	A(+/-) / A(1,2,3) = \$20M
	BBB+ / Baa1 = \$10M	BBB+ / Baa1 = \$10M	BBB+ / Baa1 = \$10M
	BBB or below = None	BBB or below = None	BBB or below = None

**Participation in Partnerships**

To further its mission, UPHS participates in several partnerships, which are accounted for under either the cost or equity methods of accounting. If UPHS owns less than 20%, the investment is accounted for using the cost method and if over 20% up to 50% the investment is accounted for using the equity method. These investments are recorded in Other Assets on the combined balance sheets. For partnerships that make routine cash distributions, which UPHS has determined are central to its operations and mission, the equity share of income/(loss) is recorded in Other Revenue. Those significant investments are summarized below. All other equity income/(loss) from partnerships are recorded as a component of Net Realized Gain, Contributions and Other Support.

# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### 2. Significant Accounting Policies (continued)

UPHS has a 30% interest in Good Shepherd Penn Partners, a venture and strategic alliance that provides post-acute medical care in eastern Pennsylvania. The investment is accounted for by utilizing the equity method.

UPHS has a 50% interest in Lancaster Behavior Health Hospital LLC, which provides adult and adolescent inpatient care for those suffering from severe depression, anxiety, or other mood disorders. The investment is accounted for by utilizing the equity method.

UPHS has a 50% interest in Lancaster Rehabilitation Hospital which serves intensive inpatient physical rehabilitation following strokes, trauma or other healthcare problems that result in severe disabilities. The investment is accounted for by utilizing the equity method.

UPHS has a 50% interest in Physicians' Surgery Center Lancaster General LLC, which is a modern outpatient surgery center located in the city of Lancaster, Pennsylvania. The investment is accounted for by utilizing the equity method.

UPHS has a 49% interest in Virtual Penn Radiation Oncology Partners LLC, a venture and strategic alliance that provides radiation and oncology physician services in southern New Jersey. The investment is accounted for by utilizing the equity method.

#### **Excess of Revenues Over Expenses**

The combined statements of operations include excess of revenue over expenses. Changes in net assets without donor restriction which are excluded from excess of revenue over expenses, consistent with industry practice, include the change in unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from the PSOM other than for goods and services, net assets released from restrictions for capital, and pension related changes other than net periodic pension cost.

#### **Transfers Between UPHS Entities**

All significant inter-entity accounts and transactions are eliminated in combination.

#### **New Accounting Pronouncements**

In March 2017, the FASB issued a standard on Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Historically, net benefit cost is reported as an employee cost within Excess of revenue over expenses from operations (or capitalized into assets when appropriate.) This standard required the bifurcation of net benefit cost, as follows: service cost will continue to be reported in Employee benefits, while the remaining components of net benefit cost will be reported in Net realized gain/(loss), contributions and other support, net. This standard is effective for fiscal years beginning after December 15, 2019. UPHS early adopted this standard for fiscal year 2018.

In August 2016, the FASB issued a standard on the Presentation of Financial Statements of Not-for-Profit Entities. The new guidance requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other users. UPHS adopted this standard for fiscal year 2019, on a retrospective basis. Prior year amounts for Temporarily restricted and Permanently restricted net assets were combined as Net assets with donor restrictions.

# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### 2. Significant Accounting Policies (continued)

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. UPHS adopted this standard for fiscal year 2019 using the retrospective method and elected the practical expedient to apply to contracts not yet completed as of the beginning of the fiscal year. The adoption of this standard did not materially impact the UPHS' results of operations or financial position.

In February 2016, the FASB issued a standard on Leases. This standard requires lessees to recognize assets and liabilities for the rights and obligations created by leases with terms in excess of 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease will primarily depend on its classification as a finance or operating lease. The accounting by lessors remains largely unchanged. This standard is effective for fiscal years beginning after December 15, 2018. UPHS is evaluating the impact this will have on the combined financial statements beginning in fiscal year 2020.

In November 2016, the FASB issued a standard on Restricted Cash. This standard requires that the Combined Statement of Cash Flows explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents ("Total Cash"). Additionally, a disclosure describing the nature of the restrictions and a reconciliation of Total Cash to the amounts of Cash and cash equivalents presented on the Combined Statement of Financial Position is required. The standard is effective for fiscal year 2020.

#### **Net Patient Service Revenue**

UPHS reports revenues generally related to contracts with patients in which our performance obligations are to provide health care services to the patients. Net patient service revenues are recorded over time during the period our obligations to provide health care services are rendered and at the estimated net realizable amounts from patients, third-party payers and others in exchange for their service.

UPHS has agreements with third-party payers that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Estimates of contractual allowances, under managed care plans, which represent explicit price concessions under ASC 606, are based upon the payment terms specified in the related contractual agreements. A summary of the payment arrangements with major third-party payers is as follows:

- Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient psychiatric services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. UPHS is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by each hospital and audits thereof by the Medicare fiscal intermediary.

# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### 2. Significant Accounting Policies (continued)

- Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Additional amounts are allocated to each hospital for training residents and serving a disproportionate indigent population.
- Commercial: UPHS also has reimbursement agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

#### **Medicare and Medicaid**

Revenue from the Medicare and Medicaid programs accounted for approximately 34% and 10%, respectively, of Health System's hospital Net patient service revenue for the year ended 2019, and 31% and 11%, respectively, of the Health System's Net patient service revenue, for the year ended 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Certain revenue received for third party payers is subject to audit and retrospective adjustments.

Final adjustments resulting from settlements with third-party payers are recorded in the year in which they are settled. The amount was an increase of \$15,825,000 and \$26,611,000 to net patient service revenue in 2019 and 2018, respectively, as a result of final settlements and the revision or removal of reserves previously estimated that were no longer necessary.

#### **Self-Pay and Other Adjustments to Revenues**

Under ASC 605, the provision for bad debt expense was based on management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators. Periodically throughout the fiscal year, management assessed the adequacy of the allowance for uncollectible accounts based upon historical collection rates by payer category, changes in applicable laws, rules and regulations and contract terms, including patients not covered by insurance. The results of this review were then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. Under ASC 606, similar process and methodologies are considered using the portfolio approach. The portfolio approach combines similar classes of accounts into groups for assessment. Management does not expect a material difference between the portfolio approach and considering each account separately. These revenue adjustments, or implicit price concessions, are now recorded when patient service revenues are recognized. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, UPHS follows established guidelines for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by UPHS. Account receivables are written off after collection efforts have been followed in accordance with UPHS' policy.

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**2. Significant Accounting Policies (continued)**

In accordance with ASC 606, the impact of the adoption of the new standard is described in the following table:

*(amounts in thousands)*

	Twelve months ended June 30, 2019		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change
Net patient service revenue before provision for bad debts		\$ 7,134,078	
Provision for bad debts		(193,101)	
Net patient service revenue	\$ 6,940,977	\$ 6,940,977	\$ -

**Medicaid Modernization Program**

On July 3, 2010, the Pennsylvania General Assembly passed the Public Welfare Code amendment (Act 49) which was signed into law by the Governor, establishing a new program referred to as Medicaid Modernization. The program was subsequently approved by the federal Centers for Medicare and Medicaid Services. The program is designed to provide additional funding to Pennsylvania hospitals for the purpose of enhancing access to quality healthcare for qualifying Medicaid beneficiaries, helping to partially mitigate the losses incurred by hospitals resulting from low reimbursement rates. To accomplish this objective, for fiscal years 2011 through 2018, the program provides participating hospitals with improved inpatient fee-for-service hospital payments, establishes enhanced hospital payments through Medicaid managed care organizations (MCOs), and secures additional federal matching Medicaid funds through a Quality Care Assessment, under which hospitals pay the state a percentage of their net inpatient revenue. After deducting the cost of the assessment due to the state, UPHS recognized additional revenues over expenses of \$30,844,000 in fiscal year 2019 and \$26,671,000 in fiscal year 2018 from the Pennsylvania Medicaid Modernization program.

**Third Party Agreements**

During 2017, UPHS and Independence Blue Cross (IBC) reached an agreement on terms of a new five-year agreement and continuing unless terminated by the parties. Payments made for inpatient services provided to IBC traditional and managed care subscribers are effected on a per case rate basis for most services. Payment for outpatient services is principally based upon negotiated fee schedules. Hospital and physician rates also provide for annual inflationary increases. In addition, incentives are paid for high performance with regard to clinical outcomes and patient quality.

During 2015, UPHS and Aetna reached agreement on terms of a new five-year agreement. The terms of the new agreement provide payments for inpatient hospital services on a per case rate basis. Payments for outpatient services continue to be predominantly based upon negotiated fee schedules.

# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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## 2. Significant Accounting Policies (continued)

### Endowments

The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Rather, the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act) governs the investment, use and management of the UPHS' endowment funds. The Pennsylvania Act allows a non-profit to elect to spend between 2% and 7% of the endowment market value, determined at least annually and averaged over a period of three or more preceding years.

The Pennsylvania Act does not require the preservation of the fair value of a donor's original gift as of the gift date of a donor-restricted endowment fund, absent explicit donor stipulations to the contrary. However, based on its interpretation of the Pennsylvania Act and relevant accounting literature, UPHS classifies the following as net assets with donor restrictions for reporting purposes: (i) the original value of donated assets required to be invested in perpetuity; (ii) the original value of subsequent donated assets required to be invested in perpetuity; (iii) accumulations to the donated assets invested in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund; and (iv) donated assets and accumulations that are subject to legal or donor-imposed restrictions that will be met by actions of the University and/or the passage of time.

UPHS follows the University's endowment spending policy. In accordance with the Pennsylvania Act, the University has elected to adopt and follow an investment policy seeking a total return for the investments held by the AIF, whether the return is derived from appreciation of capital or earnings and distributions with respect to capital or both. The endowment spending policy which the Board of Trustees has elected to govern the expenditure of funds invested in the AIF is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. For Fiscal Year 2019, the spending rule target payout was based on the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior fiscal year-end fair value of the AIF, lagged one year, multiplied by 5.0% for financial aid funds and 5.0% for all other funds.

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**3. Assets Whose Use Is Limited**

Assets whose use is limited at June 30, 2019 and 2018 are set forth in the following table (in thousands):

	<u>2019</u>	<u>2018</u>
<b>Held by trustees</b>		
Debt service		
Cash and cash equivalents	\$ 10,503	\$ 9,448
Capital project fund		
Cash and cash equivalents	23,815	140,455
Other retirement programs		
Marketable equity securities	92,247	89,946
Other		
Cash and cash equivalents	3,060	1,158
Marketable debt securities	665	-
Marketable equity securities	32,003	31,000
Other	1,305	2,293
	<u>37,033</u>	<u>34,451</u>
Total held by trustees	<u>163,598</u>	<u>274,300</u>
<b>RRG/Captive</b>		
Cash and cash equivalents	174,674	158,832
Other	45,205	48,571
Total RRG Captive	<u>219,879</u>	<u>207,403</u>
<b>Designated</b>		
Cash and cash equivalents	75,976	95,296
Associated Investment Funds (A.I.F)	2,338,368	1,598,137
US Treasury obligations	71,866	49,790
Marketable debt securities	63,705	251,171
Marketable equity securities	91,966	413,138
Notes, mortgages and other	89,157	176,730
Total designated	<u>2,731,038</u>	<u>2,584,262</u>
<b>Donor-restricted</b>		
Cash and cash equivalents	37,570	31,868
Marketable debt securities	882	2,483
Marketable equity securities	120,680	116,287
Associated Investment Funds (A.I.F)	502,212	479,304
Contribution receivable, net	14,357	7,158
Notes, mortgages and other	2,436	11,004
Total donor-restricted	<u>678,137</u>	<u>648,104</u>
Total assets whose use is limited	<u>\$ 3,792,652</u>	<u>\$ 3,714,069</u>



**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**4. Investments**

Investments at June 30, 2019 and 2018 are set forth in the following table (in thousands):

	<u>2019</u>	<u>2018</u>
US Treasury obligations	\$ 685,094	\$ 642,890
Intermediate investments	-	94,807
Associated Investment Funds (A.I.F)	183,722	152,620
Marketable debt securities	21,856	26,606
Other	210	19,357
	<u>\$ 890,882</u>	<u>\$ 936,280</u>

**5. Fair Value Measurement**

Investments, derivative instruments and assets whose use is limited, measured at fair value in accordance with the Fair Value Measurements standard as of June 30, 2019 and 2018 are as follows (in thousands):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2019
<b>Assets</b>					
Cash and cash equivalents	\$ 326,675	\$ -	\$ -	\$ -	\$ 326,675
Equity investments					
US equities	212,209	-	-	-	212,209
International equities	26,684	-	-	-	26,684
Debt investments					
US Treasuries and Agencies	733,913	41,860	-	-	775,773
Corporate bonds	1,548	100,536	-	26,849	128,933
Split-interest agreements	-	-	104,287	-	104,287
Absolute return	-	-	-	22,788	22,788
Natural resources	8,006	-	-	12,154	20,160
Private equity	-	-	-	27,366	27,366
	<u>\$ 1,309,035</u>	<u>\$ 142,396</u>	<u>\$ 104,287</u>	<u>\$ 89,157</u>	<u>\$ 1,644,875</u>
Associated Investment Fund (A.I.F.)					3,024,302
Total: Assets					<u>\$ 4,669,177</u>
<b>Liabilities</b>					
Derivative instruments	-	4,902	-	-	4,902
Total: Liabilities	<u>\$ -</u>	<u>\$ 4,902</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,902</u>

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2018
<b>Assets</b>					
Cash and cash equivalents	\$ 606,957	\$ -	\$ -	\$ -	\$ 606,957
Equity investments					
US equities	290,745	-	-	-	290,745
International equities	164,287	-	-	40,837	205,124
Debt investments					
US Treasuries and Agencies	713,136	42,348	-	-	755,484
Corporate bonds	1,533	152,971	-	99,581	254,085
Split-interest agreements	-	-	104,576	-	104,576
Absolute return	-	-	-	64,178	64,178
Natural resources	39,461	-	-	47,746	87,207
Private equity	-	-	-	44,774	44,774
	<u>\$ 1,816,119</u>	<u>\$ 195,319</u>	<u>\$ 104,576</u>	<u>\$ 297,116</u>	<u>\$ 2,413,130</u>
Associated Investment Fund (A.I.F.)					2,230,061
Total: Assets					<u>\$ 4,643,191</u>
<b>Liabilities</b>					
Derivative instruments	-	3,507	-	-	3,507
Total: Liabilities	<u>\$ -</u>	<u>\$ 3,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,507</u>

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**5. Fair Value Measurement (continued)**

Changes to the reported amounts of split interest agreements, measured at fair value using unobservable (Level 3) inputs as of June 30, 2019 and 2018 are all recorded as net unrealized gains and losses. The primary unobservable input used in the fair value measurement of the split interest agreements is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a material change in fair value.

As noted above, UPHS participates in the Associated Investment Fund (A.I.F.). At June 30, 2019 and June 30, 2018, UPHS held 22.12% and 18.12% of the total investment fund, respectively. The asset classification for the A.I.F. is as follows (in thousands):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2019
<b>Assets</b>					
Short term investments	\$ 829,956	\$ -	\$ -	\$ -	\$ 829,956
Equity investments					
US equities	413,143	-	-	982,622	1,395,765
International equities	164,010	-	-	1,055,871	1,219,881
Emerging market equities	153,435	-	-	1,091,866	1,245,301
Debt securities					
US Treasuries	702,170	-	-	-	702,170
Corporate bonds	-	66	-	-	66
High yield	-	-	-	98	98
Absolute return	-	-	-	3,236,498	3,236,498
Real estate	-	-	-	804,620	804,620
Private equity	-	-	-	3,805,518	3,805,518
Natural resources	149,434	-	-	638,259	787,693
Derivative instruments	-	1,167	-	-	1,167
Total: Assets	<u>\$ 2,412,148</u>	<u>\$ 1,233</u>	<u>\$ -</u>	<u>\$ 11,615,352</u>	<u>\$ 14,028,733</u>
Less: Liabilities	<u>355,649</u>	<u>7,177</u>	<u>-</u>	<u>-</u>	<u>362,826</u>
	<u>\$ 2,056,499</u>	<u>\$ (5,944)</u>	<u>\$ -</u>	<u>\$ 11,615,352</u>	<u>\$ 13,665,907</u>

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2018
<b>Assets</b>					
Short term investments	\$ 361,818	\$ -	\$ -	\$ -	\$ 361,818
Equity investments					
US equities	477,458	-	-	945,701	1,423,159
International equities	189,082	-	-	986,910	1,175,992
Emerging market equities	163,933	-	-	960,603	1,124,536
Debt securities					
US Treasuries	679,350	-	-	-	679,350
Corporate bonds	-	3,169	-	-	3,169
High yield	-	-	-	106	106
Absolute return	-	-	-	3,112,126	3,112,126
Real estate	-	-	-	687,726	687,726
Private equity	-	-	-	3,137,522	3,137,522
Natural resources	222,671	-	-	679,783	902,454
Derivative instruments	-	10,386	-	-	10,386
Total: Assets	<u>2,094,312</u>	<u>13,555</u>	<u>-</u>	<u>10,510,477</u>	<u>12,618,344</u>
Less: Liabilities	<u>289,977</u>	<u>6,428</u>	<u>-</u>	<u>-</u>	<u>296,405</u>
	<u>\$ 1,804,335</u>	<u>\$ 7,127</u>	<u>\$ -</u>	<u>\$ 10,510,477</u>	<u>\$ 12,321,939</u>

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**6. Other Assets**

Other assets at June 30, 2019 and 2018 are set forth in the following table (in thousands):

	<u>2019</u>	<u>2018</u>
Goodwill, net	\$ 24,888	\$ 24,888
Certificate of need	22,000	22,000
Other receivables	75,066	75,437
Malpractice receivable	103,777	106,673
Inventory	87,615	74,573
Prepaid expenses	95,050	96,065
Interests in joint ventures	83,243	73,545
Other	35,869	30,592
	<u>527,508</u>	<u>503,773</u>
Less: Current portion	<u>(266,159)</u>	<u>(235,838)</u>
	<u>\$ 261,349</u>	<u>\$ 267,935</u>

Amortization expense charged to operations totaled \$1,091,000 and \$800,000 in 2019 and 2018, respectively.

**7. Property, Equipment and Accumulated Depreciation**

Property, equipment and accumulated depreciation at June 30, 2019 and 2018 are set forth in the following table (in thousands):

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 205,272	\$ 200,135
Building and improvements	4,155,662	3,793,989
Fixed and movable equipment	2,188,327	2,089,181
	<u>6,549,261</u>	<u>6,083,305</u>
Accumulated depreciation	<u>(2,974,400)</u>	<u>(2,697,405)</u>
	3,574,861	3,385,900
Construction in progress	1,185,702	717,877
	<u>\$ 4,760,563</u>	<u>\$ 4,103,777</u>

Depreciation expense for fiscal year 2019 was \$331,950,000 and \$307,228,000 in fiscal year 2018. Capitalized Interest recorded for fiscal year 2019 was \$30,133,000 and \$12,924,000 in fiscal year 2018.

**University of Pennsylvania Health System**  
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**8. Long-Term Debt**

	Final Maturity	Effective Interest Rate at		
		June 30, 2019	2019	2018
<u>Fixed rate debt obligations:</u>				
Lancaster County Hospital Authority (LCHA)				
Series A of 2016 revenue bonds	August 15, 2042	1.04% - 3.52%	\$ 160,590	\$ 164,540
Series B of 2016 revenue bonds	August 15, 2046	1.43% - 3.58%	128,050	128,050
Pennsylvania Higher Education Facilities Authority (PHEFA)				
Series A of 2017 revenue bonds	August 15, 2047	2.60% - 3.68%	400,000	400,000
Series C of 2016 revenue bonds	August 15, 2041	0.76% - 3.08%	128,730	129,015
Series A of 2015 revenue bonds	August 15, 2045	1.38% - 4.00%	278,975	300,445
Series A of 2012 revenue bonds	August 15, 2042	1.99% - 4.08%	136,360	136,950
Series A of 2009 revenue bonds	August 15, 2021	4.37% - 4.67%	22,780	33,005
Series B of 2008 revenue bonds	August 15, 2037	-	-	52,000
New Jersey Health Care Facilities Financing Authority (NJHCFFA)				
Princeton Healthcare System Series A of 2016	July 1, 2045	1.51% - 3.875%	178,670	183,440
University of Pennsylvania Health System 2017 Taxable Bond	August 15, 2047	4.01%	200,000	200,000
Lancaster General Hospital 2015 Taxable Note	August 15, 2022	2.66%	70,335	72,805
Build-to-suit leases, net of related interest	Various	N/A	75,094	122,860
Line of credit, outstanding balance	April 13, 2022	2.85%	87,000	-
Mortgages, Notes and capital leases	Various	Various	76,312	25,986
<u>Variable rate debt obligations:</u>				
PHEFA Series A of 2014 revenue bonds	August 15, 2045	2.03%	100,000	100,000
PHEFA Series A of 2008 revenue bonds	August 15, 2037	1.90%	69,995	69,995
NJHCFFA Princeton Healthcare System Series B of 2016	July 1, 2045	2.30%	65,000	65,000
NJHCFFA Princeton Healthcare System Series C of 2016	July 1, 2045	2.30%	20,000	20,000
Series A of 2012 revenue bonds	August 15, 2041	-	-	22,775
Total outstanding bonds payable			2,197,891	2,226,866
Unamortized original issue premiums, discounts and debt costs			132,128	145,671
			2,330,019	2,372,537
Current portion of debt obligations			(47,017)	(97,678)
			<u>\$ 2,283,002</u>	<u>\$ 2,274,859</u>

# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### 8. Long-Term Debt (continued)

UPHS Series A of 2017 were issued on December 13, 2017 for \$400,000,000. \$171.6 million of the funds were used to reimburse UPHS for expenses already incurred in relation to various projects and capital expenditures. \$269.2 million of the remaining proceeds, including the issued premium, were deposited in a capital project fund held by trustee to be drawn upon for future capital expenditures. This portion of the financing is reflected as a noncash transaction in the Statement of Cash Flows. Future reimbursements from the capital project fund will be accounted for as a cash inflow from investing activities in the Statement of Cash Flows. The bonds have stated interest rates that range between 3.125% and 5.00%.

UPHS Taxable Health System Bonds of 2017 were issued on December 13, 2017 for \$200,000,000. Proceeds of the bonds were used to fund various UPHS projects and capital expenditures. The bonds have a stated interest rate of 4.00%.

UPHS Series A of 2008 Bonds were issued on April 21, 2008. Interest on the bonds is reset weekly through a remarketing process. The bonds are subject to optional redemption by the University, the obligated group agent, on any scheduled Interest Payment Date at a Redemption Price equal to 100% of the principal amount plus accrued interest and option tender by the Holders upon seven days notice. The bonds are enhanced by a renewable direct pay letter of credit issued by Bank of America with an expiration date of April 15, 2023 and UPHS self-liquidity policy.

Each of the Series A, B and C revenue bonds are subject to optional redemption by the University, the obligated group agent, at a redemption price of 100% plus accrued interest on or after specified dates within the agreements.

PHCS Series A, B and C of 2016 were issued on January 20, 2016 for the purpose of refinancing a majority of the outstanding PHCS debt through bond issuance and direct placement obligations.

The PHEFA, LCHA and NJHCFFA Revenue Bonds are collateralized by master notes issued under the UPHS Master Trust Indenture (MTI). The MTI and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness and among other things, require UPHS to meet an annual debt service coverage requirement of "income available for debt service" (excess of revenue over expenses plus depreciation, amortization, interest expense and extraordinary items) at an amount equal to 110% of the annual debt service requirements. If the coverage requirement for a particular year is not met, within six months of the close of that fiscal year, UPHS must retain the services of a consultant, to make recommendations to improve the coverage requirement. UPHS must also implement the recommendations of the consultant to the extent that they can be feasibly implemented. UPHS will not be considered to be in default of the provisions of the MTI, so long as UPHS has sufficient cash flow to pay total operating expenses and to pay debt service for the fiscal year. The debt service coverage requirement for 2019 and 2018 was met by UPHS. Additionally, UPHS has pledged its gross revenues to collateralize its obligation under the MTI.

UPHS secured a \$82,132,000 loan on December 21, 2019 for the sole purpose of funding the development of a new ambulatory building. As of June 30, 2019, \$51.6 million had been deposited in an escrow account held by trustee, and is reflected as a noncash transaction in the Statement of Cash Flows. The remaining \$30.5 million of the loan will be deposited in the escrow account in scheduled increments through April, 2020. As of June 30, 2019, \$27.8 million had been drawn down to reimburse construction costs incurred by UPHS and is accounted for as a cash inflow from investing activities in the Statement of Cash Flows.

**University of Pennsylvania Health System**  
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**8. Long-Term Debt (continued)**

UPHS has a mortgage payable that is collateralized by three office buildings of approximately \$6,900,000.

In June of 2019, UPHS purchased a building that was originally financed as a build-to-suit lease. The result of the purchase reduced the build-to-suit lease liability by \$47,272,000.

UPHS maintains a \$100,000,000 line of credit to supplement liquidity and issue letters of credit to cover balances due on construction projects and reinsurance agreements. As of June 30, 2019, there were outstanding balances of \$87,000,000 and a zero balance as of June 30, 2018. Letters of credit issued under the line are noted in contingencies and commitments.

A summary of maturities of long-term debt payments for the next five years and thereafter is as follows (in thousands):

	<u>PHEFA</u>	<u>LCHA</u>	<u>NJHCFFA</u>	<u>Other</u>	<u>Total</u>
<b>Fiscal Year</b>					
2020	\$ 34,150	\$ 4,135	\$ 5,010	\$ 2,560	\$ 45,855
2021	35,830	4,305	5,260	2,582	47,977
2022	28,615	13,075	5,525	2,675	49,890
2023	27,475	16,320	5,800	62,518	112,113
2024	34,220	13,740	6,090	-	54,050
Thereafter	<u>976,550</u>	<u>237,065</u>	<u>235,985</u>	<u>200,000</u>	<u>1,649,600</u>
Total principal	1,136,840	288,640	263,670	270,335	1,959,485
Unamortized original issue premiums, discounts, and debt costs	<u>82,510</u>	<u>32,788</u>	<u>18,148</u>	<u>(1,318)</u>	<u>132,128</u>
Total debt	<u>\$ 1,219,350</u>	<u>\$ 321,428</u>	<u>\$ 281,818</u>	<u>\$ 269,017</u>	<u>\$ 2,091,613</u>

	<u>Build-to-Suit Lease</u>
<b>Fiscal Year</b>	
2020	\$ 6,487
2021	6,649
2022	6,815
2023	6,986
2024	7,160
Thereafter	<u>83,758</u>
Total lease payments	117,855
Less: Amounts representing interest	<u>(42,761)</u>
Present value of future lease payments	<u>\$ 75,094</u>

	<u>Mortgages Lines and Capital Leases</u>
<b>Fiscal Year</b>	
2020	\$ 1,162
2021	1,058
2022	93,660
2023	503
2024	536
Thereafter	<u>66,393</u>
Total mortgages, notes and capital leases	<u>\$ 163,312</u>

**University of Pennsylvania Health System**  
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**9. Transactions with the University of Pennsylvania**

UPHS transferred \$234,722,000 and \$198,394,000 in 2019 and 2018, respectively, to further the research and educational activities of the PSOM. In addition, PSOM support totaling \$19,770,000 and \$19,844,000, which represents academic operating support to the clinical departments of the PSOM, has been recognized as operating expenses in 2019 and 2018, respectively. These activities are integral to the overall Penn Medicine mission and are reported as expenses and transfers in the combined financial statements.

Certain University expenses, such as a portion of the salaries of the PSOM faculty, qualify for reimbursement by third-party payers. Reimbursement for these costs is claimed by UPHS, and recognized as other operating revenue by CPUP and the PSOM.

Due to/(from) the University of Pennsylvania reflects the net balance resulting from transactions conducted between UPHS and the University (primarily inter-entity billings for allocation of common costs, physician salaries and benefits, certain purchased services, and support for the PSOM). UPHS transferred \$5,671,000 in 2019 and \$4,874,000 in 2018 to the University. The amounts outstanding at June 30, 2019 and 2018 represented normal current inter-entity activity.

**10. Net Assets**

The major components of net assets at June 30, 2019 and 2018 are as follows (in thousands):

	<b>2019</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
General operating	\$ 2,319,743	\$ 63,965	\$ 2,383,708
Capital	-	21,325	21,325
Endowment			
Quasi	2,914,257	-	2,914,257
Donor restricted	-	602,486	602,486
	<u>\$ 5,234,000</u>	<u>\$ 687,776</u>	<u>\$ 5,921,776</u>
	<b>2018</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
General operating	\$ 2,381,882	\$ 50,928	\$ 2,432,810
Capital	-	16,976	16,976
Endowment			
Quasi	2,755,629	-	2,755,629
Donor restricted	-	589,597	589,597
	<u>\$ 5,137,511</u>	<u>\$ 657,501</u>	<u>\$ 5,795,012</u>

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**11. Net Assets with Donor Restriction**

Net assets with donor restriction are those whose use by UPHS has been limited by donors for the following purposes (in thousands):

	<u>2019</u>	<u>2018</u>
Specific purpose (i.e., departmental room funds)	\$ 85,290	\$ 67,904
Endowment - held by others and fair value adjustments	495,272	489,968
Endowment - original cost basis	<u>107,214</u>	<u>99,629</u>
	<u>\$ 687,776</u>	<u>\$ 657,501</u>

Changes to the reported amounts of the UPHS' endowments and split interests as of June 30, 2019 and June 30, 2018 are as follows (in thousands):

	<u>2019</u>		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
<b>Endowments and split interests at June 30, 2018</b>	<u>\$ 2,755,629</u>	<u>\$ 589,597</u>	<u>\$ 3,345,226</u>
Investment return	158,058	27,175	185,233
New gifts	772	7,585	8,357
Allocation of AIF assets for expenditure	(114,723)	-	(114,723)
Other investment allocations	(1,129)	-	(1,129)
Transfers to create Board designated funds	93,779	-	93,779
Other transfers	3,548	(3,548)	-
Released from restriction	18,323	(18,323)	-
<b>Endowments and split interests at June 30, 2019</b>	<u>\$ 2,914,257</u>	<u>\$ 602,486</u>	<u>\$ 3,516,743</u>
	<u>2018</u>		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
<b>Endowments and split interests at June 30, 2017</b>	<u>\$ 2,303,595</u>	<u>\$ 531,387</u>	<u>\$ 2,834,982</u>
Investment return	289,147	59,132	348,279
New gifts	-	1,190	1,190
Allocation of AIF assets for expenditure	(83,743)	-	(83,743)
Other investment allocations	(1,494)	-	(1,494)
Princeton Healthcare Systems membership substitution	163,024	18,416	181,440
Other transfers	64,572	-	64,572
Released from restriction	20,528	(20,528)	-
<b>Endowments and split interests at June 30, 2018</b>	<u>\$ 2,755,629</u>	<u>\$ 589,597</u>	<u>\$ 3,345,226</u>

At June 30, 2019 and 2018, there were no material donor-restricted endowment funds for which the fair value of assets was less than the level required by donor stipulations or law.



# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### 12. Pension and Postretirement Benefit Costs

Retirement benefits are principally provided to active employees through a combination of qualified and non-qualified defined contribution plans (DC). The UPHS policy with respect to its DC Plan contribution is up to 6.5% of eligible employee salaries and contributions amounted to \$77,935,000 and \$71,992,000 in 2019 and 2018, respectively.

UPHS also has several non-contributory partially and fully frozen defined benefit (DB) pension plans. Benefits under the plans generally are based on the employee's years of service and compensation during the years preceding retirement. Contributions to the plans are made in amounts necessary to at least satisfy the minimum required contributions as specified in the Internal Revenue Service Code and related regulations. UPHS' primary plan was frozen to new entrants effective July 1, 2010; the benefit accruals for all participants of the LGH and PHCS plans were frozen effective June 30, 2013 and December 31, 2011, respectively.

Additionally, UPHS provides healthcare and life insurance benefits (Other Postretirement Employee Benefits or OPEB), while LGH provides only life insurance for retirees prior to January 1, 2012. Only a limited number of employees may become eligible for such benefits if they reach retirement age while working for some UPHS entities. These and similar benefits for active and certain retired employees are provided through insurance contracts.

During the period from March 2018 through July 2018, 3,394 terminated vested participants in the UPHS and LGH DB plans were fully paid out their pension benefits as part of a one-time vested termination cashout offering (VTCO), with the exception of Princeton. The PBO and ABO as of June 30, 2018 reflect the pay-out of benefits for these participants. Total lump sum payments from the VTCO were \$156,928,000, which was \$115,878,000 for UPHS and \$41,050,000 for LG plans. The amount of lump sum payouts during the fiscal year did not exceed the sum of fiscal 2018 service cost plus interest cost for the UPHS plan. Therefore, settlement accounting was not required for fiscal 2018. However, for the LGH plan, the amount of lump sum payouts during the fiscal year did exceed the sum of fiscal 2018 service cost plus interest cost for the UPHS plan, so settlement accounting was required for that plan.

UPHS uses a measurement date of June 30 for their defined benefit and postretirement health care benefit plans.

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**12. Pension and Postretirement Benefit Costs (continued)**

**Change in Plan Assets/ Obligation and Funded Status**

The funded status of the plans is measured as the difference between the plan assets at fair value and the PBO for Pension Benefits or accumulated postretirement benefit obligation (APBO) for Other Postretirement Benefits. The resulting net liability is recorded in Pension and post-retirement benefit liability on the Combined Balance Sheets. The following shows changes in the benefit obligation, plan assets and funded status (in thousands):

	June 30					
	Pension Benefits		Other Postretirement Benefits		Total	
	2019	2018	2019	2018	2019	2018
<b>Change in Benefit Obligation</b>						
Benefit obligation at end of prior year	\$3,059,991	\$2,995,855	\$ 146,801	\$ 160,188	\$3,206,792	\$3,156,043
Service costs	65,996	67,022	2,277	2,739	68,273	69,761
Interest costs	128,493	127,061	6,062	6,239	134,555	133,300
Retiree drug subsidy	N/A	N/A	110	87	110	87
Plan participants' contributions	N/A	N/A	610	562	610	562
Plan amendments	N/A	N/A	N/A	N/A	N/A	N/A
Plan curtailments	N/A	N/A	N/A	N/A	N/A	N/A
Net transfer in/(out)	-	167,552	N/A	N/A	-	167,552
Net actuarial (gain)/loss	309,053	(61,596)	1,592	(15,221)	310,645	(76,817)
Benefits paid from fund	(90,356)	(235,903)	(72)	(67)	(90,428)	(235,970)
Benefits paid directly by company	N/A	N/A	(8,458)	(7,726)	(8,458)	(7,726)
Benefit obligation at end of year	<u>\$ 3,473,177</u>	<u>\$ 3,059,991</u>	<u>\$ 148,922</u>	<u>\$ 146,801</u>	<u>\$ 3,622,099</u>	<u>\$ 3,206,792</u>
Accumulated benefit obligation	\$3,087,834	\$2,726,358	\$ -	\$ -	\$3,087,834	\$2,726,358

	June 30					
	Pension Benefits		Other Postretirement Benefits		Total	
	2019	2018	2019	2018	2019	2018
<b>Change in Plan Assets</b>						
Fair value of plan assets at beginning of year	\$ 2,339,244	\$ 2,131,107	\$ -	\$ -	\$ 2,339,244	\$ 2,131,107
Actual return on assets	105,623	200,905	-	-	105,623	200,905
Company contributions	85,428	103,344	7,809	7,144	93,237	110,488
Retiree drug subsidy	-	-	110	87	110	87
Plan participants' contributions	-	-	610	562	610	562
Benefits paid from fund	(90,356)	(235,903)	(72)	(67)	(90,428)	(235,970)
Benefits paid directly by company	-	-	(8,457)	(7,726)	(8,457)	(7,726)
Acquisitions	-	139,791	-	-	-	139,791
Fair value of plan assets at end of year	<u>\$ 2,439,939</u>	<u>\$ 2,339,244</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,439,939</u>	<u>\$ 2,339,244</u>

**Funded Status**

Projected benefit obligation/accumulated postretirement benefit obligation	\$ (3,473,177)	\$ (3,059,991)	\$ (148,922)	\$ (146,801)	\$ (3,622,099)	\$ (3,206,792)
Plan assets at fair value	<u>2,439,939</u>	<u>2,339,244</u>	<u>-</u>	<u>-</u>	<u>2,439,939</u>	<u>2,339,244</u>
Funded status at end of year	<u>\$ (1,033,238)</u>	<u>\$ (720,747)</u>	<u>\$ (148,922)</u>	<u>\$ (146,801)</u>	<u>(1,182,160)</u>	<u>(867,548)</u>
Other retirement programs					(92,246)	(89,946)
Total accrued retirement benefits					(1,274,406)	(957,494)
Less: current portion included in Accrued expenses					8,339	8,320
Pension and post-retirement benefit liability					<u>\$ (1,266,067)</u>	<u>\$ (949,174)</u>

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
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**12. Pension and Postretirement Benefit Costs (continued)**

**Net Periodic Benefit Cost**

The components of the net periodic benefit cost for pension benefits and other postretirement benefits are as follows (in thousands):

	June 30					
	Pension Benefits		Other Postretirement Benefits		Total	
	2019	2018	2019	2018	2019	2018
Service cost	\$ 65,996	\$ 67,022	\$ 2,277	\$ 2,739	\$ 68,273	\$ 69,761
Interest cost	128,493	127,061	6,062	6,239	134,555	133,300
Expected return on plan assets	(154,983)	(162,050)	-	-	(154,983)	(162,050)
Settlement/Curtailment	-	764	-	-	-	764
Amortization of						
Net prior service cost (credit)	-	-	(387)	(387)	(387)	(387)
Net losses (gains)	27,707	34,871	219	495	27,926	35,366
Net periodic benefit cost	<u>\$ 67,213</u>	<u>\$ 67,668</u>	<u>\$ 8,171</u>	<u>\$ 9,086</u>	<u>\$ 75,384</u>	<u>\$ 76,754</u>

**Net Assets Without Donor Restriction**

UPHS recorded the following year-end valuation adjustments to its Pension and Other Postretirement Benefit Plans in the Pension and other postretirement plans adjustments in the Combined Statements of Operations (in thousands):

	June 30					
	Pension Benefits		Other Postretirement Benefits		Total	
	2019	2018	2019	2018	2019	2018
<b>Net assets without donor restriction</b>						
Net actuarial loss	\$ (860,291)	\$ (529,586)	\$ (6,535)	\$ (5,162)	\$ (866,826)	\$ (534,748)
Net prior service (cost) / credit	-	-	2,759	3,146	2,759	3,146
Accumulated net assets without donor restriction	(860,291)	(529,586)	(3,776)	(2,016)	(864,067)	(531,602)
Adjustment to net assets without donor restriction	\$ 330,705	\$ (136,086)	\$ 1,760	\$ (15,726)	\$ 332,465	\$ (151,812)

The estimated amounts that will be amortized from net assets without donor restriction in net periodic benefit cost in 2020 are as follows (in thousands):

	Pension Benefits	Other Postretirement Benefits
Amortization of prior service credit	\$ -	\$ (387)
Amortization of net losses	48,713	250

**University of Pennsylvania Health System**  
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**12. Pension and Postretirement Benefit Costs (continued)**

**Actuarial Assumptions**

The expected long-term rate of return on plan assets is management's best estimate of the average investment return expected to be received on the assets invested in the plan over the benefit period. The expected long-term rate of return on plan assets has been established by considering historical and future expected returns of the asset classes invested in by the pension trust, and the allocation strategy currently in place among those classes.

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
<b>Weighted-average assumptions used to determine benefit obligation at year end</b>				
Discount rate	3.70 %	4.27 %	3.59 %	4.25 %
Rate of compensation increase	4.00	4.00	4.00	4.00
<b>Weighted-average assumptions for net periodic benefit cost</b>				
Discount rate	4.27 %	4.38 %	4.25 %	4.00 %
Expected long-term return on plan assets	7.42	7.94	N/A	N/A
Rate of compensation increase	4.00	4.00	4.00	4.00
<b>Assumed health care trend rates</b>				
Health care cost trend rate assumed for next fiscal year (pre-65/post-65)			5.90%/6.40%	6.20%/6.70%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.50%	4.50%
Ultimate trend rate is reached in fiscal year			2038	2038
Medicare Part B trend rate assumed for next fiscal year			5.40%	5.50%
Ultimate trend rate			4.50%	4.50%
Ultimate trend rate is reached in fiscal year			2038	2038
<b>Assumed prescription drug trend rates at June 30</b>				
Health care cost trend rate assumed for next fiscal year			7.70%	8.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.50%	4.50%
Ultimate trend rate is reached in fiscal year			2038	2038

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefits. A one-percentage-point change in assumed health care trend rates would have the following effects on other postretirement benefits (in thousands):

	One-Percentage Point Increase		One-Percentage Point Decrease	
	2019	2018	2019	2018
Effect on total service and interest cost	\$ 393	\$ 453	\$ (342)	\$ (390)
Effect on accumulated postretirement benefit obligation	\$ 8,381	\$ 8,876	\$ (7,312)	\$ (7,742)

**Expected Contributions**

UPHS expects to contribute \$122,480,000 and \$8,404,000 for pension benefits and other postretirement benefits, respectively, during the fiscal year ending June 30, 2020.

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
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**12. Pension and Postretirement Benefit Costs (continued)**

**Expected Benefit Payments (in thousands):**

	<b>Pension Benefits</b>	<b>Other Post Retirement Benefit Before Medicare Part D Subsidy</b>	<b>Medicare Part D Subsidy</b>
<b>Actual for the year ending</b>			
June 30, 2018	\$ 235,903	\$ 7,794	\$ (87)
June 30, 2019	90,356	8,531	(110)
<b>Expected for the year ending</b>			
June 30, 2020	111,401	9,202	(157)
June 30, 2021	115,212	9,672	(162)
June 30, 2022	122,785	10,033	(167)
June 30, 2023	131,026	10,419	(170)
June 30, 2024	139,631	10,679	(173)
June 30, 2025 to June 30, 2029	815,484	51,373	(900)

**Plan Assets**

The principal investment objectives for the pension plans are: to ensure the availability of funds to pay pension benefits as they become due under a broad range of future economic scenarios; to maximize long-term investment returns with an acceptable level of risk based on the pension obligations; and to invest the pension trust in a diversified manner.

UPHS uses the University Office of Investments to manage the day-to-day activities of the investments of the pension. The investments are made in accordance with policies set out by the Investment Board which has been appointed by the Trustees. The pension benefit investments are similar in nature to those investments discussed in Note 2 – Significant Accounting Policies. However, the actual allocations to specific investments within each asset class may vary due to certain restrictions imposed by investment managers and ERISA regulations.

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**12. Pension and Postretirement Benefit Costs (continued)**

A summary of plan assets, measured at fair value, as of June 30, 2019 and 2018 is as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments at NAV</u>	<u>2019</u>
<b>Assets</b>					
Short-term investments	\$ 61,240	\$ -	\$ -	\$ -	\$ 61,240
Equity investments					
US equities	220,083	459	-	149,124	369,666
International equities	119,573	-	-	210,448	330,021
Emerging markets equities	175	-	-	146,958	147,133
Debt investments					
US Treasuries	224,475	7,699	-	-	232,174
Corporate bonds	85,863	79,911	-	178,772	344,546
Absolute return	-	-	-	525,155	525,155
Real estate	-	-	-	55,230	55,230
Private equity	2,611	-	-	221,968	224,579
Natural resources	60,520	-	-	89,927	150,447
	<u>\$ 774,540</u>	<u>\$ 88,069</u>	<u>\$ -</u>	<u>\$ 1,577,582</u>	<u>\$ 2,440,191</u>
<b>Liabilities</b>					
Derivative instruments					
Options	\$ -	\$ 252	\$ -	\$ -	\$ 252
	<u>\$ -</u>	<u>\$ 252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 252</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments at NAV</u>	<u>2018</u>
<b>Assets</b>					
Short-term investments	\$ 47,131	\$ -	\$ -	\$ -	\$ 47,131
Equity investments					
US equities	280,800	328	-	138,298	419,426
International equities	139,466	-	-	228,352	367,818
Emerging markets equities	5,826	-	-	128,612	134,438
Debt investments					
US Treasuries	173,761	8,400	-	-	182,161
Corporate bonds	36,829	79,663	-	154,097	270,589
Absolute return	13,335	-	-	496,797	510,132
Real estate	-	-	-	40,149	40,149
Private equity	3,868	-	-	179,116	182,984
Natural resources	92,372	1,059	-	91,116	184,547
Derivative instruments					
Forward currency contracts	-	59	-	-	59
	<u>\$ 793,388</u>	<u>\$ 89,509</u>	<u>\$ -</u>	<u>\$ 1,456,537</u>	<u>\$ 2,339,434</u>
<b>Liabilities</b>					
Derivative instruments					
Forward currency contracts	\$ -	\$ 1	\$ -	\$ -	\$ 1
Options	-	189	-	-	189
	<u>\$ -</u>	<u>\$ 190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 190</u>

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**12. Pension and Postretirement Benefit Costs (continued)**

As of June 30, 2019, UPHS has unfunded commitments to limited partnerships totaling \$299,869,000, which are expected to be called over the next several years.

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2019 and 2018 there were no transfers between Level 1 and 2.

**Allocation of Plan Assets:**

	<b>Pension Benefits</b>		
	<b>Target</b>	<b>2019</b>	<b>2018</b>
Short-term investments	0.0 %	2.5 %	2.0 %
Equity investments			
US equities	13.2 %	15.2 %	17.9 %
International equities	13.9 %	13.5 %	15.7 %
Emerging markets equities	6.2 %	6.0 %	5.7 %
Debt investments			
US Treasuries	20.6 %	9.5 %	7.8 %
Corporate bonds	3.5 %	14.1 %	11.6 %
Absolute return	23.3 %	21.5 %	21.8 %
Real estate	2.1 %	2.3 %	1.7 %
Private equity	9.0 %	9.2 %	7.8 %
Natural resources	8.2 %	6.2 %	7.9 %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**13. Net Patient Revenue by Payer**

	<u>2019</u>	<u>2018</u>
Medicare (including Managed Medicare)	34 %	31 %
Medicaid (including Managed Medicaid)	10	11
Managed care	35	37
Blue cross	16	17
Commercial	4	3
Self pay	1	1
	<u>100 %</u>	<u>100 %</u>

**14. Concentrations of Credit Risk**

UPHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2019 and 2018, respectively, is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	18 %	15 %
Medicaid	1	2
Managed care (including Managed Medicare and Medicaid)	47	49
Blue cross	13	12
Commercial	14	14
Self pay	7	8
	<u>100 %</u>	<u>100 %</u>

**15. Lease Commitments**

Expenses for equipment and office space under operating leases during 2019 and 2018 were \$82,611,000 and \$81,003,000, respectively, and are included in the accompanying combined financial statements.

A summary of future minimum payments under operating leases at June 30, 2019, is as follows (in thousands):

2020	\$ 73,773
2021	62,326
2022	56,579
2023	48,418
2024	45,397
Thereafter	<u>217,398</u>
	<u>\$ 503,891</u>



# University of Pennsylvania Health System

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### 16. Medical Professional Liability Claims

UPHS is insured for medical professional liability claims through the combination of the Medical Care Availability and Reduction of Error Fund (Mcare - formally the Medical Professional Liability Catastrophe Loss Fund of the Commonwealth of Pennsylvania - CAT Fund), various commercial insurance companies, and risk retention programs.

Mcare levies health care provider surcharges, as a percentage of the Pennsylvania Joint Underwriters Association (JUA) rates for basic coverage, to pay claims and pay administrative expenses of the Mcare participants. These surcharges are recognized as expenses in the period incurred. In March 2002, the Pennsylvania General Assembly approved reforming the Commonwealth's medical malpractice insurance system. Mcare operates on a pay-as-you-go basis and no provision has been made for any future Mcare assessments in the accompanying combined financial statements, as UPHS' portion of the unfunded Mcare liability cannot be estimated.

UPHS retains insurance for primary and excess coverage, in addition to the self-insured amounts. The coverage provided by the captive is done through its purchase of commercial insurance. The excess professional liability coverage is provided on a claim-made basis.

UPHS funded RRG/Captive and Lancaster General Insurance Company, Ltd. (LGI), for purposes of administering its risk retention program and covering its primary layer exposures. The assets and respective liabilities of risk retentions groups are included in the accompanying combined financial statements.

UPHS accrues for estimated retained risks arising from both asserted and unasserted medical professional liability claims. UPHS has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of these claims. The estimate of the gross liability and corresponding receivable for unasserted claims arising from unreported incidents is based on analysis of historical claims data by an independent actuary, which is recorded utilizing a 2.25% to 3.50% discount rate at June 30, 2019 and June 30, 2018. Total liability under this program is approximately \$732,389,000 and \$734,383,000 with a corresponding receivable of \$103,777,000 and \$106,673,000 at June 30, 2019 and 2018, respectively.

#### 17. Charity, Uncompensated and Under-Compensated Care

UPHS accepts patients in serious need of professional medical care, independent of their financial status. This definition includes those patients suffering from a medical condition manifesting itself by acute symptoms of sufficient severity (including severe pain) such that the absence of immediate medical attention could reasonably be expected to result in (1) placing the health of the individual (or, with respect to a pregnant woman, the health of the woman or her unborn child) in serious jeopardy, or (2) serious impairment to bodily functions. Accordingly, UPHS provides services to patients, who meet certain criteria under its charity care policy, without charge or at amounts less than UPHS' established rates. Because UPHS does not pursue collections, such amounts have been excluded from net patient service revenue. UPHS estimated \$24,968,000 and \$19,189,000 of costs were incurred during 2019 and 2018, respectively, from providing services to charity patients. The estimated costs of providing charity services are based on data derived from a combination of the UPHS' cost accounting system and the ratio of costs to charges.

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**17. Charity, Uncompensated and Under-Compensated Care (continued)**

UPHS also provides care to patients who do not have health insurance or meet the criteria to qualify for its charity care policy. UPHS pursues collection of these amounts, however certain amounts are deemed to be uncollectible. For 2019, with the adoption of ASC 606, \$193,101,000 was classified as an implicit price concession which reduces net patient service revenue in the accompanying combined statements of operations. For 2018, prior to the adoption of ASC 606, \$164,763,000 was classified in the provision for bad debts in the accompanying combined statements of operations.

Additionally, the costs of providing services to eligible welfare recipients, who participate in the Pennsylvania Medical Assistance and local Managed Medicaid programs exceeded reimbursement by \$280,672,000 and \$258,803,000 in 2019 and 2018, respectively.

In addition to providing direct patient charity care and in furtherance of its exempt purpose to benefit the community, UPHS operates emergency rooms open to the public 24-hours per day, 7 days per week; maintains research facilities for the study of disease and injuries; provides facilities for teaching and training various medical personnel; facilitates the advancement of medical and surgical education; and provides various community services such as screenings for the detection of breast, colorectal and skin cancer, cancer support groups, a toll free number for cancer information, free immunization shots, training programs for the City Fire and Police Departments, health education classes, speeches and regularly provides health related information to television and radio news programs and to reporters at newspapers and magazines.

**18. Contingencies and Commitments**

UPHS is subject to litigation and regulatory investigations that arise in the ordinary course of its business. To cover claims arising out of its operations, UPHS maintains various levels of insurance coverage with deductibles that UPHS believes to be sufficient. UPHS cannot assure that professional liability insurance will cover all claims or continue to be available at reasonable costs for UPHS to maintain adequate levels of insurance. In the opinion of management, the outcome of such claims and litigation will not materially affect our combined financial position, results of operations and cash flows.

At June 30, 2019, construction contract commitments are estimated to total \$317,404,000.

UPHS maintains various unused letters of credit with expirations at various dates through fiscal year 2019 totaling \$11,816,000 and \$6,800,000 at June 30, 2019 and 2018, respectively, to cover balances due on construction projects and reinsurance agreements.

**University of Pennsylvania Health System**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**19. Liquidity and Availability**

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt and capital construction costs not financed with debt, are as follows (in thousands):

	<u>2019</u>
Financial assets:	
Cash and cash equivalents	\$ 779,099
Patient and third party payer receivables	830,935
Other receivables included in other current assets	178,843
Pledge payment available for operations	3,132
Investments (all other)	<u>2,715,117</u>
Total financial assets available within one year	<u>\$ 4,507,126</u>
Liquidity resources	
Bank lines of credit	<u>13,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 4,520,126</u>

To manage liquidity, UPHS maintains a line of credit that is drawn upon as needed during the year to manage cash flows. Management has the discretion to utilize the full amount of quasi-endowment funds for general expenditures.

**20. Investment Returns**

A summary of the investment return included within Excess of revenue over expenses, which is net of external and direct internal investment expenses, for the years ended June 30, 2019 and 2018 is presented below (in thousands).

	<u>2019</u>	<u>2018</u>
Investment income	\$ 77,395	\$ 42,879
Realized gains on investments	209,760	128,522
Unrealized gain on alternative investments	<u>36,038</u>	<u>120,364</u>
Total return investment income	<u>\$ 323,193</u>	<u>\$ 291,765</u>

**21. Subsequent Events**

UPHS has evaluated subsequent events through September 26, 2019, which is the date the combined financial statements were issued.

## **Supplementary Combining Information**

The following unaudited supplemental schedules have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**University of Pennsylvania Health System**  
**Combining Balance Sheet**  
**June 30, 2019 (thousands of dollars)**

	<u>Princeton Foundation</u>	<u>Princeton Hospital and Other</u>	<u>Elimination</u>	<u>Sub-Total PHCS</u>	<u>UPHS All Other</u>	<u>Total UPHS</u>
<b>Assets</b>						
<b>Current</b>						
Cash and cash equivalents	\$ 2,336	\$ 70,645	\$ -	\$ 72,981	\$ 706,118	\$ 779,099
Patient receivables, net	-	60,728	-	60,728	766,212	826,940
Third party payer receivables	-	-	-	-	3,995	3,995
Other current assets	292	14,887	(179)	15,000	251,159	266,159
Total current assets	<u>2,628</u>	<u>146,260</u>	<u>(179)</u>	<u>148,709</u>	<u>1,727,484</u>	<u>1,876,193</u>
<b>Assets whose use is limited</b>						
Held by trustee	-	9,490	-	9,490	154,108	163,598
RRG\Captive	-	-	-	-	219,879	219,879
Designated	-	-	-	-	2,731,038	2,731,038
Donor-restricted	22,022	-	(344)	21,678	656,459	678,137
	<u>22,022</u>	<u>9,490</u>	<u>(344)</u>	<u>31,168</u>	<u>3,761,484</u>	<u>3,792,652</u>
Investments	33,474	149,904	344	183,722	707,160	890,882
Property and equipment, net	311	439,299	(3)	439,607	4,320,956	4,760,563
Other assets	-	48,881	(17,750)	31,131	230,218	261,349
Total assets	<u>\$ 58,435</u>	<u>\$ 793,834</u>	<u>\$ (17,932)</u>	<u>\$ 834,337</u>	<u>\$ 10,747,302</u>	<u>\$ 11,581,639</u>
<b>Liabilities and Net Assets</b>						
<b>Current</b>						
Accounts payable	\$ 15	\$ 24,280	\$ -	\$ 24,295	\$ 239,264	\$ 263,559
Accrued expenses	724	48,705	-	49,429	815,855	865,284
Current portion of long-term debt	-	5,738	-	5,738	41,279	47,017
Due to the University of Pennsylvania	-	-	-	-	5,215	5,215
Third party payer settlements	-	-	-	-	62,813	62,813
Total current liabilities	<u>739</u>	<u>78,723</u>	<u>-</u>	<u>79,462</u>	<u>1,164,426</u>	<u>1,243,888</u>
Long-term debt, net of current portion	-	278,882	-	278,882	2,004,120	2,283,002
Third party payer settlements, net of current portion	-	6,089	-	6,089	1,149	7,238
Other liabilities	24	18,541	(179)	18,386	841,282	859,668
Pension and postretirement benefit liability	-	23,128	-	23,128	1,242,939	1,266,067
Total liabilities	<u>763</u>	<u>405,363</u>	<u>(179)</u>	<u>405,947</u>	<u>5,253,916</u>	<u>5,659,863</u>
<b>Net assets</b>						
Net assets without donor restriction	36,502	371,242	(24)	407,720	4,826,280	5,234,000
Net assets with donor restriction	21,170	17,229	(17,729)	20,670	667,106	687,776
Total net assets	<u>57,672</u>	<u>388,471</u>	<u>(17,753)</u>	<u>428,390</u>	<u>5,493,386</u>	<u>5,921,776</u>
Total liabilities and net assets	<u>\$ 58,435</u>	<u>\$ 793,834</u>	<u>\$ (17,932)</u>	<u>\$ 834,337</u>	<u>\$ 10,747,302</u>	<u>\$ 11,581,639</u>

**University of Pennsylvania Health System**  
**Combining Balance Sheet**  
**June 30, 2018 (thousands of dollars)**

	<u>Princeton Foundation</u>	<u>Princeton Hospital and Other</u>	<u>Elimination</u>	<u>Sub-Total PHCS</u>	<u>UPHS All Other</u>	<u>Total UPHS</u>
<b>Assets</b>						
Current						
Cash and cash equivalents	\$ 3,902	\$ 46,744	\$ -	\$ 50,646	\$ 939,737	\$ 990,383
Patient receivables, net	-	47,884	-	47,884	705,715	753,599
Third party payer receivables	-	-	-	-	4,873	4,873
Due from the University of Pennsylvania	-	-	-	-	7,475	7,475
Other current assets	13	43,378	(4,321)	39,070	196,768	235,838
Total current assets	<u>3,915</u>	<u>138,006</u>	<u>(4,321)</u>	<u>137,600</u>	<u>1,854,568</u>	<u>1,992,168</u>
Assets whose use is limited						
Held by trustee	-	9,352	-	9,352	264,948	274,300
RRG\Captive	-	-	-	-	207,403	207,403
Designated	-	-	-	-	2,584,262	2,584,262
Donor-restricted	19,742	2,161	-	21,903	626,201	648,104
	<u>19,742</u>	<u>11,513</u>	<u>-</u>	<u>31,255</u>	<u>3,682,814</u>	<u>3,714,069</u>
Investments	31,396	142,523	-	173,919	762,361	936,280
Property and equipment, net	336	466,678	(2)	467,012	3,636,765	4,103,777
Other assets	-	48,864	(17,470)	31,394	236,541	267,935
Total assets	<u>\$ 55,389</u>	<u>\$ 807,584</u>	<u>\$ (21,793)</u>	<u>\$ 841,180</u>	<u>\$ 10,173,049</u>	<u>\$ 11,014,229</u>
<b>Liabilities and Net Assets</b>						
Current						
Accounts payable	\$ 119	\$ 42,971	\$ -	\$ 43,090	\$ 168,974	\$ 212,064
Accrued expenses	274	34,605	-	34,879	699,237	734,116
Current portion of long-term debt	-	5,489	-	5,489	92,189	97,678
Third party payer settlements	-	-	-	-	66,522	66,522
Total current liabilities	<u>393</u>	<u>83,065</u>	<u>-</u>	<u>83,458</u>	<u>1,026,922</u>	<u>1,110,380</u>
Long-term debt, net of current portion	-	286,621	-	286,621	1,988,238	2,274,859
Third party payer settlements, net of current portion	-	7,235	-	7,235	222	7,457
Other liabilities	-	25,111	(4,321)	20,790	856,557	877,347
Pension and postretirement benefit liability	-	23,558	-	23,558	925,616	949,174
Total liabilities	<u>393</u>	<u>425,590</u>	<u>(4,321)</u>	<u>421,662</u>	<u>4,797,555</u>	<u>5,219,217</u>
Net assets						
Net assets without donor restriction	35,254	365,227	(24)	400,457	4,737,054	5,137,511
Net assets with donor restriction	19,742	16,767	(17,448)	19,061	638,440	657,501
Total net assets	<u>54,996</u>	<u>381,994</u>	<u>(17,472)</u>	<u>419,518</u>	<u>5,375,494</u>	<u>5,795,012</u>
Total liabilities and net assets	<u>\$ 55,389</u>	<u>\$ 807,584</u>	<u>\$ (21,793)</u>	<u>\$ 841,180</u>	<u>\$ 10,173,049</u>	<u>\$ 11,014,229</u>

**University of Pennsylvania Health System**  
**Combining Statement of Operations**  
**Year Ended June 30, 2019 (thousands of dollars)**

	<u>Princeton Foundation</u>	<u>Princeton Hospital</u>	<u>Princeton All Other</u>	<u>. Elimination</u>	<u>Sub-Total PHCS</u>	<u>UPHS All Other</u>	<u>Total UPHS</u>
<b>Revenues</b>							
Net patient service revenue	\$ -	\$ 370,802	\$ 117,291	\$ -	\$ 488,093	\$ 6,452,884	\$ 6,940,977
Other revenue	2,751	7,274	13,606	(3,858)	19,773	633,298	653,071
Total revenues	<u>2,751</u>	<u>378,076</u>	<u>130,897</u>	<u>(3,858)</u>	<u>507,866</u>	<u>7,086,182</u>	<u>7,594,048</u>
<b>Expenses</b>							
Salaries and wages	812	129,537	95,264	-	225,613	2,979,831	3,205,444
Employee benefits	234	32,045	20,892	-	53,171	768,166	821,337
Supplies and expenses	2,444	132,221	11,596	(3,858)	142,403	2,486,723	2,629,126
Corporate services/inter-entity support	94	25,328	9,324	-	34,746	(34,746)	-
Depreciation and amortization	25	37,229	2,225	-	39,479	293,334	332,813
Malpractice	-	1,821	1,800	-	3,621	90,496	94,117
Interest	-	9,074	-	-	9,074	44,681	53,755
SOM support	-	-	-	-	-	19,770	19,770
Total expenses	<u>3,609</u>	<u>367,255</u>	<u>141,101</u>	<u>(3,858)</u>	<u>508,107</u>	<u>6,648,255</u>	<u>7,156,362</u>
Excess (deficit) of revenue over expenses from operations	(858)	10,821	(10,204)	-	(241)	437,927	437,686
<b>Nonoperating gains (loss)</b>							
Interest and dividends	2,080	10,069	-	-	12,149	65,246	77,395
Net realized gain (loss), contributions and other support	-	(19,934)	22,157	-	2,223	208,369	210,592
Change in unrealized gain (loss) on alternative investments	-	-	-	-	-	36,038	36,038
Excess (deficit) of revenue over expenses	<u>1,222</u>	<u>956</u>	<u>11,953</u>	<u>-</u>	<u>14,131</u>	<u>747,580</u>	<u>761,711</u>
Change in unrealized gain (loss) on other investments	26	(101)	-	-	(75)	(97,501)	(97,576)
Transfers and net assets released from restrictions for capital	-	-	-	-	-	(235,181)	(235,181)
Pension and other postretirement plan adjustments	-	(6,793)	-	-	(6,793)	(325,672)	(332,465)
Increase in net assets without donor restriction	<u>\$ 1,248</u>	<u>\$ (5,938)</u>	<u>\$ 11,953</u>	<u>\$ -</u>	<u>\$ 7,263</u>	<u>\$ 89,226</u>	<u>\$ 96,489</u>

**University of Pennsylvania Health System**  
**Combining Statement of Operations**  
**Year Ended June 30, 2018 (thousands of dollars)**

	<u>Princeton Foundation</u>	<u>Princeton Hospital</u>	<u>Princeton All Other</u>	<u>Elimination</u>	<u>Sub-Total PHCS</u>	<u>UPHS All Other</u>	<u>Total UPHS</u>
<b>Revenues</b>							
Net patient service revenue before provision for bad debt	\$ -	\$ 183,335	\$ 60,752	\$ -	\$ 244,087	\$ 6,173,587	\$ 6,417,674
Provision for bad debts	-	(4,920)	(972)	-	(5,892)	(158,871)	(164,763)
Net patient service revenue	-	178,415	59,780	-	238,195	6,014,716	6,252,911
Other revenue	1,272	3,345	5,798	(3,504)	6,911	522,329	529,240
Total revenues	1,272	181,760	65,578	(3,504)	245,106	6,537,045	6,782,151
<b>Expenses</b>							
Salaries and wages	422	71,954	42,394	-	114,770	2,765,909	2,880,679
Employee benefits	112	15,999	8,908	-	25,019	729,160	754,179
Supplies and expenses	1,287	73,317	16,607	(3,504)	87,707	2,188,199	2,275,906
Depreciation and amortization	12	18,696	1,074	-	19,782	289,477	309,259
Malpractice	-	1,805	1,072	-	2,877	101,556	104,433
Interest	-	4,602	-	-	4,602	50,521	55,123
SOM support	-	-	-	-	-	19,844	19,844
Total expenses	1,833	186,373	70,055	(3,504)	254,757	6,144,666	6,399,423
Excess (deficit) of revenue over expenses from operations	(561)	(4,613)	(4,477)	-	(9,651)	392,379	382,728
<b>Nonoperating gains (loss)</b>							
Interest and dividends	134	2,924	-	-	3,058	39,821	42,879
Net realized gain (loss), contributions and other support	-	(9,015)	8,312	-	(703)	129,645	128,942
Princeton Healthcare Systems membership substitution	-	398,493	-	-	398,493	-	398,493
Change in unrealized gain (loss) on alternative investments	-	-	-	-	-	120,364	120,364
Excess (deficit) of revenue over expenses	(427)	387,789	3,835	-	391,197	682,209	1,073,406
Change in unrealized gain (loss) on other investments	972	5,631	-	-	6,603	13,245	19,848
Transfers and net assets released from restrictions for capital	-	-	-	-	-	(200,842)	(200,842)
Pension and other postretirement plan adjustments	-	2,657	-	-	2,657	149,155	151,812
Increase in net assets without donor restriction	\$ 545	\$ 396,077	\$ 3,835	\$ -	\$ 400,457	\$ 643,767	\$ 1,044,224