

University of Pennsylvania Health System

**Combined Financial Statements and Combining
Supplementary Data
June 30, 2023 and 2022**

University of Pennsylvania Health System

Table of Contents

June 30, 2023 and 2022

	Page(s)
Report of Independent Auditors	
Combined Financial Statements	
Combined Balance Sheets.....	3
Combined Statements of Operations	4
Combined Statements of Changes in Net Assets.....	5
Combined Statements of Cash Flows.....	6
Notes to Combined Financial Statements.....	7-41
Supplementary Combining Information	
Combining Balance Sheets	42-43
Combining Statements of Operations	44-45
Combining Balance Sheets of PHCS.....	46-47
Combining Statements of Operations of PHCS	48-49



Report of Independent Auditors

To the Trustees of University of Pennsylvania

Opinion

We have audited the accompanying combined financial statements of University of Pennsylvania Health System (the "Health System"), which comprise the combined balance sheets as of June 30, 2023 and 2022, and the related combined statements of operations, of changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "combined financial statements").

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Health System as of June 30, 2023 and 2022, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Health System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health System's ability to continue as a going concern for one year after the date the combined financial statements are issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Health System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying combined information as of and for the years ended June 30, 2023 and 2022 (the "supplemental information") is presented for purposes of additional analysis and is not a required part of the combined financial statements. The combining information is not intended to present, and we do not express an opinion on, the financial position, results of operations, changes in net assets and cash flows of the individual companies. The supplemental 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 supplemental 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 supplemental information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
September 28, 2023

University of Pennsylvania Health System
Combined Balance Sheets
June 30, 2023 and 2022 (thousands of dollars)

	<u>2023</u>	<u>2022</u>
Assets		
Current		
Cash and cash equivalents	\$ 875,232	\$ 816,111
Patient receivables, net	1,028,058	1,012,942
Third party payer receivables	39,925	6,175
Assets held for sale	43,369	-
Other current assets	426,289	404,796
Total current assets	<u>2,412,873</u>	<u>2,240,024</u>
Assets whose use is limited		
Held by trustees	168,328	165,219
RRG\Captive	201,327	304,256
Designated	3,871,739	4,094,937
Donor-restricted investments	850,670	820,548
	<u>5,092,064</u>	<u>5,384,960</u>
Investments	125,393	192,058
Property and equipment, net	5,915,043	5,949,333
Other assets	784,261	629,919
Total assets	<u>\$ 14,329,634</u>	<u>\$ 14,396,294</u>
Liabilities and Net Assets		
Current		
Accounts payable	\$ 291,157	\$ 291,658
Accrued expenses	951,171	1,090,645
Current portion of long-term debt	66,762	55,802
Due to the University of Pennsylvania	1,198	1,303
Liabilities associated with assets held for sale	19,046	-
Third party payer settlements	27,718	164,167
Total current liabilities	<u>1,357,052</u>	<u>1,603,575</u>
Long-term debt, net of current portion	2,464,585	2,541,850
Third party payer settlements, net of current portion	22,784	20,787
Due to the University of Pennsylvania	35,000	40,000
Other liabilities	1,238,031	1,188,530
Pension and postretirement benefit liability	255,169	385,261
Total liabilities	<u>5,372,621</u>	<u>5,780,003</u>
Net assets		
Net assets without donor restriction	8,094,975	7,761,326
Net assets with donor restriction	862,038	854,965
Total net assets	<u>8,957,013</u>	<u>8,616,291</u>
Total liabilities and net assets	<u>\$ 14,329,634</u>	<u>\$ 14,396,294</u>

See accompanying notes to combined financial statements.

University of Pennsylvania Health System
Combined Statements of Operations
Years Ended June 30, 2023 and 2022 (thousands of dollars)

	<u>2023</u>	<u>2022</u>
Revenues and other support		
Net patient service revenue	\$ 8,727,443	\$ 8,104,389
Other revenue and support	1,247,254	1,100,018
Total revenues and other support	<u>9,974,697</u>	<u>9,204,407</u>
Expenses		
Salaries and wages	4,263,683	4,043,481
Employee benefits	1,065,016	1,010,495
Supplies and other expenses	3,793,785	3,439,836
Depreciation and amortization	414,521	387,958
Malpractice	97,253	84,558
Interest	81,549	70,013
Perelman School of Medicine (PSOM) support	20,717	20,588
Total expenses	<u>9,736,524</u>	<u>9,056,929</u>
Excess of revenue over expenses from operations	238,173	147,478
Non-operating gain (loss)		
Investment (loss) income, net	93,270	(42,094)
Other non-operating (loss)/income, net	(456)	54,929
Gain on extinguishment of debt	-	3,398
Excess of revenue over expenses	<u>330,987</u>	<u>163,711</u>
Changes in unrealized gain/(loss) on debt investments	545	(7,021)
Transfers to PSOM and University, net	(161,920)	(159,344)
Net assets released from restrictions for capital	19,823	898
Pension and other postretirement plan adjustments	144,214	545,306
Increase in net assets without donor restriction	<u>\$ 333,649</u>	<u>\$ 543,550</u>

See accompanying notes to combined financial statements.

University of Pennsylvania Health System
Combined Statements of Changes in Net Assets
Years Ended June 30, 2023 and 2022 (thousands of dollars)

	Net assets without donor restriction	Net assets with donor restriction	Total
Net assets, June 30, 2021	\$ 7,217,776	\$ 889,711	\$ 8,107,487
Excess of revenue over expenses	163,711	-	163,711
Changes in unrealized loss on investments	(7,021)	-	(7,021)
Pension and other postretirement plan adjustments	545,306	-	545,306
Contributions and investment income	-	41,242	41,242
Net assets released from restrictions for			
Operations	-	(34,088)	(34,088)
Capital	898	(898)	-
Net realized and unrealized gain on restricted funds	-	(39,940)	(39,940)
Transfer to PSOM and University, net	(159,344)	(1,062)	(160,406)
Increase in net assets	<u>543,550</u>	<u>(34,746)</u>	<u>508,804</u>
Net assets, June 30, 2022	<u>7,761,326</u>	<u>854,965</u>	<u>8,616,291</u>
Excess of revenue over expenses	330,987	-	330,987
Changes in unrealized loss on investments	545	-	545
Pension and other postretirement plan adjustments	144,214	-	144,214
Contributions and investment income	-	55,726	55,726
Net assets released from restrictions for			
Operations	-	(37,427)	(37,427)
Capital	19,823	(19,823)	-
Net realized and unrealized loss on restricted funds	-	8,597	8,597
Transfer to PSOM and University, net	(161,920)	-	(161,920)
Increase/(decrease) in net assets	<u>333,649</u>	<u>7,073</u>	<u>340,722</u>
Net assets, June 30, 2023	<u>\$ 8,094,975</u>	<u>\$ 862,038</u>	<u>\$ 8,957,013</u>

See accompanying notes to combined financial statements.

University of Pennsylvania Health System
Combined Statements of Cash Flows
Years Ended June 30, 2023 and 2022 (thousands of dollars)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Increase in net assets	\$ 340,722	\$ 508,812
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	414,521	387,958
Bond premium amortization	(13,554)	(16,249)
Gain on asset transaction	-	148
(Gain)/Loss on extinguishment of debt	-	(3,398)
Increase/(decrease) from changes in		
Patient receivables	(15,116)	(85,933)
Other current assets	(28,992)	(56,236)
Other assets	(119,631)	(11,870)
Accounts payable and accrued expenses	(129,088)	43,772
Estimated third party payer settlements	(168,203)	(448,196)
Due from University of Pennsylvania	(5,105)	20,536
Other liabilities	63,086	(57,662)
Pension and postretirement benefit liability	14,122	(36,506)
Net realized and unrealized (gain)/loss on investments	(51,349)	112,732
Transfers, restricted contributions and pension adjustment	(30,866)	(406,466)
Net cash provided by/(used in) operating activities	<u>270,547</u>	<u>(48,559)</u>
Cash flows from investing activities		
Net purchases of property and equipment	(420,779)	(661,816)
Purchases of assets whose use is limited and investments	(459,778)	(302,063)
Sale of assets whose use is limited and investments	820,691	854,778
Net cash used for investing activities	<u>(59,866)</u>	<u>(109,101)</u>
Cash flows from financing activities		
Repayment of long-term debt and notes payable	(54,632)	(186,003)
Proceeds from restricted contributions	48,573	21,566
Proceeds from issuance of long-term debt	16,419	125,129
Transfers and other	(161,920)	(160,406)
Net cash used for financing activities	<u>(151,560)</u>	<u>(199,714)</u>
Net decrease in cash and cash equivalents	59,121	(357,374)
Cash, cash equivalents, restricted cash and restricted cash equivalents		
Beginning of year	816,111	1,173,485
End of year	<u>875,232</u>	<u>\$ 816,111</u>
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amount capitalized	\$ 92,144	\$ 79,680
Purchases of property and equipment included in accounts payable	\$ 26,073	\$ 32,451
Operating cash flows for operating leases	\$ 50,635	\$ 49,546
Right-of-use assets obtained in exchange for lease liabilities	\$ 5,955	\$ 32,218

See accompanying notes to combined financial statements.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

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 (“Wissahickon Hospice / Homecare”). 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. 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), a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code.

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.

COVID-19

In January 2020, the World Health Organization declared the novel strain of coronavirus (“COVID-19”) a Public Health Emergency of International Concern. The COVID-19 pandemic has caused a disruption to our nation’s healthcare system. Such disruption includes reduction in availability of staffing and reductions in the availability of personal protective equipment to prevent spread of the disease during patient treatment. Generally, elective procedures were postponed by physicians and acute care facilities during the periods of peak COVID-19 activity. The Health System is monitoring developments and the directives of federal, state and local officials to determine what precautions and procedures required. On March 27, 2020, the Federal Government passed the CARES Act (Coronavirus Aid, Relief, and Economic Stimulus Act), which allotted \$100 billion dollars to healthcare providers and suppliers through Medicare reimbursements, grants and other direct federal payments, which was increased to \$175 billion through subsequent legislation. Funds totaling \$21,257,000 and \$18,654,000 were allocated and recognized as Other revenue and support on the Statement of Operations for the years ended June 30, 2023 and June 30, 2022, respectively. As of June 30, 2023, UPHS had received \$606,803,000 in advanced payments from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advanced Payments Program which is reported as current Third party payer settlements on the Balance Sheet. In April 2021, CMS began to recoup Advanced Payments against claims processed. As of September 30, 2022, UPHS has repaid CMS for the Advanced Payments in full,

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

2. Significant Accounting Policies (continued)

while Third party payer settlements reflected \$116,304,000 in advanced payments as of June 30, 2022.

Furthermore, the CARES Act allowed employers to defer the deposits and payments of the employer's share of the Social Security taxes. As of December 31, 2022, UPHS has repaid the remaining balance of Social Security Taxes, while \$57,791,000 was deferred and recorded as other liabilities on the Balance Sheet as of June 30, 2022. UPHS recognized revenue related to the CARES Act funding based on information available at June 30, 2023 from laws and regulations governing the funding as well as interpretations issued by the Department of Health and Human Services (HHS). As these new reporting requirements are subject to change, there is at least a possibility that amounts recorded under CARES Act funding may change in future periods.

UPHS was awarded funds by the PA Department of Human Services, under Act 2 of 2022 during 2022. These funds are American Rescue Plan Act funds and are specifically for making payments to hospitals for staff retention and recruitment payments to qualified staff. The entire amount awarded, \$19,239,000, was recognized as income during 2022. Similar funds were not provided during 2023.

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 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. Operating cash equivalents and highly liquid investments that are reported as Assets whose use is limited and Investments, at fair value, are considered investments through policy and are therefore excluded from the Statements of Cash Flows.

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. 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 and unrealized gains and losses on investments, other than investments in debt securities that are not held for trading, are reported as a component of excess of revenue over

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

2. Significant Accounting Policies (continued)

expenses. The change in unrestricted unrealized gains and losses on investments in debt securities not held for trading are reported below 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. 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 impairment write downs reported for the years ended June 30, 2023 and June 30, 2022.

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.

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.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

2. Significant Accounting Policies (continued)

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).

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 investments other than debt securities that are not for trading are reported as a component of the excess of revenue over expenses. The change in unrestricted unrealized gain/(loss) from investments in debt securities that are not for trading 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 money market accounts 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 mutual funds and private funds. The securities held in managed accounts, along with mutual 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.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

2. Significant Accounting Policies (continued)

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 and sovereign bonds, 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.

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

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

2. Significant Accounting Policies (continued)

(changes in market value other than those related to currency or interest rate risk, including the use of NAV provided).

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:

Strategy	Redemption Terms	Redemption Restrictions
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 investments (2)
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 18 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, 2023 and 2022

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. 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. This balance has remained consistent since UPHS adopted the FASB Statement 142 guidance to stop amortizing Goodwill and have Goodwill subject to impairment testing. 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 have been done if circumstances exist that may lead to impairment. There were no goodwill impairments during 2023 or 2022.

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 undiscounted 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, 2023 and 2022, totaling \$11,020,000 and \$11,319,000, 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, 2023 and 2022

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, 2023 and 2022

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 \$0 and \$110,000 and liability of \$2,246,000 and \$3,506,000 as of June 30, 2023 and June 30, 2022, 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) in the Combined Statements of Operations.

	Merrill Lynch/ Bank of America	Merrill Lynch/ Bank of America	Merrill Lynch/ Bank of America
Notional amount	\$ 3,140,000	\$ 3,140,000	\$ 19,525,000
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. If UPHS owns less than 20%, the investment is accounted for at fair value. If there is no readily determinable fair value, UPHS has elected to use the measurement alternative. If UPHS demonstrates significant influence, the investment is accounted for using the equity method. UPHS' investments within these partnerships are recorded in Other Assets on the Combined Balance Sheets. For partnerships for 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.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

2. Significant Accounting Policies (continued)

UPHS has a 49% 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 Virtua 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.

All other equity income/(loss) from partnerships are recorded as a component of Investment Income, net.

In January 2023, UPHS, Tandigm Health, LLC and Independence Health Group (IHG), Inc. executed a Contribution, Exchange, and Warrant Purchase Agreement for a 26.7% interest of Class B Units in Tandigm. UPHS's contribution included \$50,000,000 in cash and an 18-Year Participation Agreement. The 18-Year Participation Agreement provides that UPHS primary care physicians will receive population health support from the Tandigm and participate in value-based opportunities through Tandigm. Tandigm issued 3-Year and 5-Year warrants that allow UPHS the right and option to purchase additional 3.35% in each respective year for a total of additional 6.7% interest in the Tandigm. IHG and UPHS also hold put and call rights whereby UPHS has a put right every five years. UPHS recognizes distributions earned under the value-based care agreements in Net Patient Service Revenue. The investment in Tandigm is accounted for using the equity method with income/(loss) from partnership recorded as a component of Non-Operating Investment Income, net.

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 generally accepted accounting principles, include the change in unrealized gains and losses on investments other than trading debt 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.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

2. Significant Accounting Policies (continued)

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 the services received.

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.
- 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 34% and 12%, respectively, of Health System's hospital Net patient service revenue for the year ended 2023, and 33% and 13%, respectively, of the Health System's Net patient service revenue, for the year ended 2022. 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 \$68,954,620 and \$44,660,000 to net patient service revenue in 2023 and 2022, respectively, as a result of final settlements and the revision or removal of reserves previously estimated that were no longer necessary.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

2. Significant Accounting Policies (continued)

Self-Pay and Other Adjustments to Revenues

UPHS calculates implicit price concessions, or revenue adjustments, based on management's review of historic net portfolio collections, current economic conditions, historical experience, trends in health care coverage and other collection indicators. The portfolio approach combines similar classes of accounts into groups for assessment. These implicit price concessions are 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.

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 2020, 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 \$59,773,081 in fiscal year 2023 and \$71,410,000 in fiscal year 2022 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 affected 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. On September 10, 2021, this agreement was extended from June 30, 2022, to June 30, 2025.

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. In June of 2020, a 1-year "bridge agreement" was agreed upon beginning July 1, 2020 and continues through June 30, 2021. In 2021, a new agreement was negotiated running through June 30, 2025. The new agreement consolidated all prior existing agreements across all UPHS regions and entities. Further, extensive new value-based payment models were layered on top of the existing fee-for-service framework.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

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 10% 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 A.I.F., 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 A.I.F. is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. For Fiscal Year 2023, 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 A.I.F., lagged one year, multiplied by 5.0% target spending rate for all funds.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

3. Assets Whose Use Is Limited

Assets whose use is limited at June 30, 2023 and 2022 are set forth in the following table (in thousands):

	<u>2023</u>	<u>2022</u>
Held by trustees		
Short term investments		
Debt service	\$ 7,943	\$ 6,451
Capital project fund	2,623	7,095
Other	1,308	1,234
Marketable equity securities		
Other retirement programs	152,439	130,590
Other	1,500	13,229
Other	2,515	6,620
Total held by trustees	<u>168,328</u>	<u>165,219</u>
RRG/Captive		
Short term investments	201,327	245,785
Marketable debt securities	-	37,955
Marketable equity securities	-	20,516
Total RRG Captive	<u>201,327</u>	<u>304,256</u>
Designated		
Short term investments	31,557	10,867
Associated Investment Funds (A.I.F)	3,756,429	3,924,754
Marketable debt securities	24,818	119,095
Marketable equity securities	37	69
Other	58,898	40,152
Total designated	<u>3,871,739</u>	<u>4,094,937</u>
Donor-restricted		
Short term investments	47,834	46,721
Marketable debt securities	21,940	21,364
Marketable equity securities	86,397	67,080
Associated Investment Funds (A.I.F)	631,665	643,634
Contribution receivable, net	9,164	5,362
Other	53,670	36,387
Total donor-restricted	<u>850,670</u>	<u>820,548</u>
Total assets whose use is limited	<u>\$ 5,092,064</u>	<u>\$ 5,384,960</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

4. Investments

Investments at June 30, 2023 and 2022 are set forth in the following table (in thousands):

	<u>2023</u>	<u>2022</u>
US Treasury obligations	\$ 125,013	\$ 124,770
Marketable debt securities	-	66,908
Other	380	380
	<u>\$ 125,393</u>	<u>\$ 192,058</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, 2023 and 2022 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 2023
Assets					
Short term investments	\$ 346,642	\$ -	\$ -	\$ -	\$ 346,642
Equity investments					
US equities	132,755	-	-	-	132,755
International equities	-	-	-	-	-
Debt investments					
US Treasuries and Agencies	121,840	3,173	-	-	125,013
Corporate bonds	34,782	14,405	-	-	49,187
Split-interest agreements	-	-	107,619	-	107,619
Absolute return	-	-	-	-	0
Natural resources	85	-	-	-	85
Private equity	-	-	-	58,898	58,898
	<u>\$ 636,104</u>	<u>\$ 17,578</u>	<u>\$ 107,619</u>	<u>\$ 58,898</u>	<u>820,199</u>
Associated Investment Fund (A.I.F.)					4,388,094
Total: Assets					<u>\$ 5,208,293</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

5. Fair Value Measurement (continued)

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2022
Assets					
Short term investments	\$ 354,921	\$ -	\$ -	\$ -	\$ 354,921
Equity investments					
US equities	127,712	-	-	-	127,712
International equities	-	-	-	-	-
Debt investments					
US Treasuries and Agencies	87,553	37,216	-	-	124,769
Corporate bonds	101,929	149,927	-	-	251,856
Split-interest agreements	-	-	103,772	-	103,772
Absolute return	-	-	-	-	-
Natural resources	86	-	-	-	86
Private equity	-	-	-	40,151	40,151
	<u>\$ 672,201</u>	<u>\$ 187,143</u>	<u>\$ 103,772</u>	<u>\$ 40,151</u>	<u>\$ 1,003,267</u>
Associated Investment Fund (A.I.F.)					<u>4,568,388</u>
Total: Assets					<u>\$ 5,571,655</u>

Changes to the reported amounts of split interest agreements, measured at fair value using unobservable (Level 3) inputs as of June 30, 2023 and 2022 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, 2023 and June 30, 2022, UPHS held 21.58% and 22.75% of the total investment fund, respectively. The asset classification for the A.I.F. is as follows (in thousands):

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

5. Fair Value Measurement (continued)

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2023
Assets					
Short term investments	\$ 585,274	\$ -	\$ -	\$ -	\$ 585,274
Equity investments	-	-	-	-	-
US equities	319,779	-	-	1,596,609	1,916,388
International equities	394,339	-	-	1,297,292	1,691,631
Emerging market equities	-	-	-	1,398,030	1,398,030
Debt securities					
US Treasuries	1,070,244	-	-	-	1,070,244
Sovereign bonds	-	35	-	-	35
Absolute return	-	-	-	4,275,853	4,275,853
Real assets	-	-	-	2,603,378	2,603,378
Private equity	-	-	4,000	7,770,858	7,774,858
Derivative instruments	-	2,784	-	-	2,784
Total: Assets	<u>\$ 2,369,636</u>	<u>\$ 2,819</u>	<u>\$ 4,000</u>	<u>\$ 18,942,020</u>	<u>\$ 21,318,475</u>
Less: Liabilities	<u>957,461</u>	<u>25,834</u>			<u>983,295</u>
	<u>\$ 1,412,175</u>	<u>\$ (23,015)</u>	<u>\$ 4,000</u>	<u>\$ 18,942,020</u>	<u>\$ 20,335,180</u>

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2022
Assets					
Short term investments	\$ 926,047	\$ -	\$ -	\$ -	\$ 926,047
Equity investments					
US equities	326,291	-	-	1,147,963	1,474,254
International equities	350,191	-	-	1,153,652	1,503,843
Emerging market equities	1	-	-	1,457,587	1,457,588
Debt securities					
US Treasuries	439,890	-	-	-	439,890
Sovereign bonds	-	32	-	-	32
Absolute return	-	-	-	4,332,605	4,332,605
Real assets	92,601	-	3,547	2,469,399	2,565,547
Private equity	-	-	-	7,851,190	7,851,190
Derivative instruments	-	34,680	-	-	34,680
Total: Assets	<u>\$ 2,135,021</u>	<u>\$ 34,712</u>	<u>\$ 3,547</u>	<u>\$ 18,412,396</u>	<u>\$ 20,585,676</u>
Less: Liabilities	<u>492,721</u>	<u>14,394</u>			<u>507,115</u>
	<u>\$ 1,642,300</u>	<u>\$ 20,318</u>	<u>\$ 3,547</u>	<u>\$ 18,412,396</u>	<u>\$ 20,078,561</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

6. Other Assets

Other assets at June 30, 2023 and 2022 are set forth in the following table (in thousands):

	<u>2023</u>	<u>2022</u>
Goodwill, net	\$ 24,888	\$ 24,888
Certificate of need	22,000	22,000
Other receivables	159,512	146,750
Malpractice receivable	200,145	119,795
Prepaid expenses	146,051	140,761
Inventory	121,461	118,412
Interests in non-consolidated subsidiaries	199,836	113,255
Right-of-use assets	301,126	314,714
Other	35,531	34,140
	<u>1,210,550</u>	<u>1,034,715</u>
Less: Current portion	<u>(426,289)</u>	<u>(404,796)</u>
	<u>\$ 784,261</u>	<u>\$ 629,919</u>

Amortization expense charged to operations totaled \$1,700,000 and \$737,000 in 2023 and 2022, respectively.

As of December 31, 2022, UPHS entered into an agreement with a local university to sell the Pennsylvania College of Health Sciences, a UPHS entity affiliated with Lancaster General Hospital. The sale is expected to be finalized during fiscal year 2024 subject to approval of applicable accreditation, and oversight from government and other bodies. The fair value of the PA College, less any costs to sell, was classified as held for sale as of December 21, 2022. Any subsequent changes in value are recorded as an adjustment to the carrying value of the assets held for sale. At June 30, 2023, the assets held for sale and liabilities related to assets held for sale, respectively, are comprised of the following:

	<u>2023</u>
Other receivables	\$ 6,347
Inventory	11
Prepaid Expenses and Current Assets	1,141
Property, Plant, and Equipment, net	<u>35,870</u>
Assets held for sale	<u>\$ 43,369</u>
Current portion of long-term debt	\$ 155
Accounts payable	1,003
Accrued payroll and related taxes	1,459
Lease Liability	14,334
Other Liabilities	<u>2,095</u>
Liabilities associated with assets held for sale	<u>\$ 19,046</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

6. Other Assets (continued)

The intended sale of the PA College resulted in the recording of Fixed Asset impairment of approximately \$14,573,000 recognized within Other gains and losses as of 6/30/23.

7. Property, Plant, Equipment and Accumulated Depreciation

Property, plant, equipment (PPE) and accumulated depreciation at June 30, 2023 and 2022 are set forth in the following table (in thousands):

	<u>2023</u>	<u>2022</u>
Land and improvements	\$ 200,800	\$ 203,618
Building and improvements	6,607,536	6,493,567
Fixed and movable equipment	<u>2,873,723</u>	<u>2,797,506</u>
	9,682,059	9,494,691
Accumulated depreciation	<u>(4,076,084)</u>	<u>(3,820,681)</u>
	5,605,975	5,674,010
Construction in progress	<u>309,068</u>	<u>275,323</u>
	<u>\$ 5,915,043</u>	<u>\$ 5,949,333</u>

Depreciation expense charged to operations totaled \$412,821,000 and \$387,221,000 in 2023 and 2022, respectively. Capitalized Interest recorded was \$7,980,000 and \$20,086,000 in 2023 and 2022, respectively.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

8. Long-Term Debt

A summary of debt as of June 30, 2023 and 2022 are set forth as follows (in thousands):

		Effective Interest Rate at		
	Final Maturity	June 30, 2023	2023	2022
<u>Fixed rate debt obligations:</u>				
Lancaster County Hospital Authority (LCHA)				
Series A of 2016 revenue bonds	August 15, 2042	1.90% - 3.52%	\$142,915	\$147,640
Series B of 2016 revenue bonds	August 15, 2046	1.86% - 3.58%	107,890	119,485
Pennsylvania Higher Education Facilities Authority (PHEFA)				
Series A of 2021 revenue bonds	August 15, 2044	1.61% - 2.11%	79,810	79,810
Series B of 2021 revenue bonds	August 15, 2042	0.82% - 2.70%	109,735	109,735
Series A of 2019 revenue bonds	August 15, 2049	1.67% - 3.22%	534,870	534,870
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	1.43% - 3.08%	124,255	127,800
Series A of 2015 revenue bonds	August 15, 2045	2.22% - 4.00%	194,245	209,870
Series A of 2012 revenue bonds	August 15, 2042			8,305
New Jersey Health Care Facilities Financing Authority (NJHCFFA)				
Princeton Healthcare System Series A of 2016	July 1, 2039	2.08% - 3.88%	157,075	162,875
University of Pennsylvania Health System 2017 Taxable Bond	August 15, 2047	4.01%	200,000	200,000
Lancaster General Hospital 2015 Taxable Note	August 11, 2032	2.25%	60,453	62,518
Mortgages, Loans and other	Various	Various	95,500	96,591
<u>Variable rate debt obligations:</u>				
PHEFA Series A of 2008 revenue bonds	January 1, 2038	3.47%	69,995	69,995
NJHCFFA Princeton Healthcare System Series B of 2016	July 1, 2045	4.66%	65,000	65,000
NJHCFFA Princeton Healthcare System Series C of 2016	July 1, 2045	4.61%	20,000	20,000
Total outstanding bonds payable			2,361,743	2,414,494
Unamortized original issue premiums, discounts and debt costs, net			169,604	183,158
			2,531,347	2,597,652
Current portion of debt obligations			(66,762)	(55,802)
			2,464,585	2,541,850

Effective interest rate include the impact of amortizing premiums and discounts.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

8. Long-Term Debt (continued)

On May 18, 2022, Pennsylvania Higher Educational Facilities Authority (PHEFA) issued Series B of 2021 Refunding Revenue Bonds (PHEFA 2021B bonds), which was a forward delivery, with an aggregate principal amount of \$109,735,000. The proceeds were used to fund an escrow which was used to refund \$122,275,000 from the PHEFA Series A of 2012 revenue bonds. The refunded bonds were legally defeased and are longer included among UPHS' reported liabilities.

On February 25, 2022, the University executed a commitment letter and rate-lock agreement to facilitate the extension of the Lancaster General Hospital ("LGH") 2015 Taxable Note with an aggregate principal amount not to exceed \$62,525,000. As of August 1, 2022, the LGH 2015 taxable note has been extended for a ten-year period with a maturity date of August 1, 2032, carrying the same fixed interest rate of 2.25%.

The UPHS Series B of 2021 were issued on May 18, 2022 for \$109,735,000. The entire amount of \$122,275,000 was used to defease the UPHS Series A of 2012 revenue bonds.

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, 2028 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.

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 2023 and 2022 was met by UPHS. Additionally, UPHS has pledged its gross revenues to collateralize its obligation under the MTI.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

8. Long-Term Debt (continued)

UPHS has \$100,000,000 line-of-credit, with a maturity on April 12, 2025, to supplement liquidity and issue letters of credit to cover balances due on construction projects and reinsurance agreements. There were no draws on or any outstanding balance on the Letter of Credit as of June 30, 2023 and June 30, 2022. Letters of credit issued under the line were \$4,971,000 and \$4,709,000 at June 30, 2023 and 2022, respectively, and are included 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>
Fiscal Year					
2024	\$ 33,725	\$ 13,740	\$ 6,090	\$ 2,803	\$ 56,358
2025	45,245	5,215	6,395	2,861	59,716
2026	47,575	5,475	6,715	2,919	62,684
2027	23,440	31,520	7,050	2,979	64,989
2028	35,680	6,050	7,405	3,041	52,176
Thereafter	<u>1,327,245</u>	<u>188,805</u>	<u>208,420</u>	<u>245,850</u>	<u>1,970,320</u>
Total principal	1,512,910	250,805	242,075	260,453	2,266,243
Unamortized original issue premiums, discounts, and debt costs	<u>137,396</u>	<u>22,705</u>	<u>10,551</u>	<u>(1,048)</u>	<u>169,604</u>
Total debt	<u>\$ 1,650,306</u>	<u>\$ 273,510</u>	<u>\$ 252,626</u>	<u>\$ 259,405</u>	<u>\$ 2,435,847</u>

	<u>Mortgages Notes and Other</u>
Fiscal Year	
2024	\$ 10,410
2025	4,556
2026	4,595
2027	4,524
2028	13,347
Thereafter	<u>58,068</u>
Total mortgages, notes and other	<u>\$ 95,500</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

9. Transactions with the University of Pennsylvania

UPHS transferred \$150,374,000 and \$148,317,000 in 2023 and 2022, respectively, to further the research and educational activities of the PSOM, including capital projects constructed by Penn Medicine on behalf of the University funded by the University totaling \$13,057,000 in 2023 and \$24,715,000, respectively. In addition, PSOM support totaling \$20,717,000 and \$20,588,000, which represents academic operating support to the clinical departments of the PSOM, has been recognized as operating expenses in 2023 and 2022, 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 \$11,546,000 in 2023 and \$11,027,000 in 2022 to the University. The amounts outstanding at June 30, 2023 and 2022 represented normal current inter-entity activity.

10. Net Assets

The major components of net assets at June 30, 2023 and 2022 are as follows (in thousands):

	2023		
	Without Donor Restriction	With Donor Restriction	Total
General operating	\$ 4,294,000	\$ 93,954	\$ 4,387,954
Capital	-	31,318	31,318
Endowment	-	-	
Quasi	3,800,975	-	3,800,975
Donor restricted	-	736,766	736,766
	<u>\$ 8,094,975</u>	<u>\$ 862,038</u>	<u>\$ 8,957,013</u>
	2022		
	Without Donor Restriction	With Donor Restriction	Total
General operating	\$ 3,791,061	\$ 81,022	\$ 3,872,083
Capital	-	27,007	27,007
Endowment			
Quasi	3,970,265	-	3,970,265
Donor restricted	-	746,936	746,936
	<u>\$ 7,761,326</u>	<u>\$ 854,965</u>	<u>\$ 8,616,291</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

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>2023</u>	<u>2022</u>
Specific purpose (i.e., departmental room funds)	\$ 125,272	\$ 108,029
Endowment - held by others	107,619	103,772
Endowment - fair value adjustments	508,980	526,578
Endowment - original cost basis	<u>120,167</u>	<u>116,586</u>
	<u>\$ 862,038</u>	<u>\$ 854,965</u>

Changes to the reported amounts of the UPHS' endowments and split interests as of June 30, 2023 and June 30, 2022 are as follows (in thousands):

	<u>2023</u>		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowments and split interests at June 30, 2022	<u>\$ 3,970,264</u>	<u>\$ 746,936</u>	<u>\$ 4,717,200</u>
Investment return	38,887	15,623	54,510
New gifts	40	3,581	3,621
Allocation of AIF assets for expenditure	(213,554)	-	(213,554)
Other investment allocations	(4,954)	-	(4,954)
Transfers to create Board designated funds	(25,533)	3	(25,530)
Donor Imposed Income reinvestments	-	6,448	6,448
Other transfers	2,598	(2,598)	-
Released from restriction	<u>33,227</u>	<u>(33,227)</u>	<u>-</u>
Endowments and split interests at June 30, 2023	<u>\$ 3,800,975</u>	<u>\$ 736,766</u>	<u>\$ 4,537,741</u>

	<u>2022</u>		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowments and split interests at June 30, 2021	<u>\$ 4,073,852</u>	<u>\$ 795,515</u>	<u>\$ 4,869,367</u>
Investment return	(2,387)	(19,133)	(21,520)
New gifts	41	1,497	1,538
Allocation of AIF assets for expenditure	(202,869)	-	(202,869)
Other investment allocations	(4,289)	-	(4,289)
Transfers to create Board designated funds	73,128	1,360	74,488
Donor Imposed Income reinvestments	-	1,548	1,548
Other transfers	6,722	(7,785)	(1,063)
Released from restriction	<u>26,066</u>	<u>(26,066)</u>	<u>-</u>
Endowments and split interests at June 30, 2022	<u>\$ 3,970,264</u>	<u>\$ 746,936</u>	<u>\$ 4,717,200</u>

At June 30, 2023 and 2022, 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, 2023 and 2022

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 \$130,125,000 and \$114,628,000 in 2023 and 2022, respectively.

UPHS also has several non-contributory 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 closed 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.

On December 31, 2022, the LGH and PHCS plans were merged into the UPHS plan with no changes to existing benefits and coverages. The pension expense for the merged plan was then remeasured as of the merger date, resulting in additional expense of \$7,025,000 for the year ended June 30, 2023, due to higher interest cost and a lower expected return on plan assets for the combined plan. Plan assets for LGH and PHCS of \$613,825,000 and \$121,857,000, respectively, were transferred to centralized UPHS plan.

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.

UPHS uses a measurement date of June 30 for their defined benefit and postretirement health care benefit plans, whereas LGH and PHCS are on a calendar year basis.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

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	
	2023	2022	2023	2022	2023	2022
Change in Benefit Obligation						
Benefit obligation at end of prior year	\$ 3,150,802	\$ 3,889,437	\$ 119,249	\$ 140,751	\$ 3,270,051	\$ 4,030,188
Service costs	49,444	73,506	2,184	2,719	51,628	76,225
Interest costs	149,557	115,364	5,414	3,940	154,971	119,304
Retiree drug subsidy		N/A	(137)	(175)	(137)	(175)
Plan participants' contributions		N/A	791	699	791	699
Net actuarial (gain)/loss	(315,079)	(822,391)	(12,051)	(19,045)	(327,130)	(841,436)
Benefits paid	(114,089)	(105,114)	(9,707)	(9,640)	(123,796)	(114,754)
Benefit obligation at end of year	<u>\$ 2,920,635</u>	<u>\$ 3,150,802</u>	<u>\$ 105,743</u>	<u>\$ 119,249</u>	<u>\$ 3,026,378</u>	<u>\$ 3,270,051</u>
Change in Plan Assets						
Fair value of plan assets at beginning of year	\$ 2,985,879	\$ 3,181,023	\$ -	\$ -	\$ 2,985,879	\$ 3,181,023
Actual return on assets	(7,493)	(123,932)	-	-	(7,493)	(123,932)
Company contributions	16,953	33,902	9,053	9,116	26,006	43,018
Retiree drug subsidy	-	-	(137)	(175)	(137)	(175)
Plan participants' contributions	-	-	791	699	791	699
Benefits paid	(114,089)	(105,114)	(9,707)	(9,640)	(123,796)	(114,754)
Acquisitions	-	-	-	-	-	-
Fair value of plan assets at end of year	<u>\$ 2,881,250</u>	<u>\$ 2,985,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,881,250</u>	<u>\$ 2,985,879</u>
Funded Status						
Projected benefit obligation/accumulated postretirement benefit obligation	\$ (2,920,635)	\$ (3,150,802)	\$ (105,743)	\$ (119,249)	\$ (3,026,378)	\$ (3,270,051)
Plan assets at fair value	<u>2,881,250</u>	<u>2,985,879</u>	<u>-</u>	<u>-</u>	<u>2,881,250</u>	<u>2,985,879</u>
Funded status at end of year	<u>\$ (39,385)</u>	<u>\$ (164,923)</u>	<u>\$ (105,743)</u>	<u>\$ (119,249)</u>	<u>(145,128)</u>	<u>(284,172)</u>
Other retirement programs					(118,999)	(110,047)
Total accrued retirement benefits					(264,127)	(394,219)
Less: Current portion included in Accrued expenses					8,958	8,958
Pension and post retirement liability					<u>\$ (255,169)</u>	<u>\$ (385,261)</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

12. Pension and Postretirement Benefit Costs (continued)

The Accumulated Benefit Obligation for the Pension Benefits was \$2,742,093,000 and \$2,913,123,000 at June 30, 2023 and 2022, respectively.

For the year ended June 30, 2023, the net actuarial gain in the Benefit Obligation for the Pension Benefits was primarily attributable to an increase in the discount rate and demographic changes, while for the year ended June 30, 2022, the net actuarial gain in the Benefit Obligation for the Pension Benefits was primarily attributable to an increase in the discount rate and cash balance conversion assumption.

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	
	2023	2022	2023	2022	2023	2022
Service cost	\$ 49,444	\$ 73,506	\$ 2,184	\$ 2,719	\$ 51,628	\$ 76,225
Interest cost	149,557	115,364	5,414	3,940	154,971	119,304
Expected return on plan assets	(174,230)	(194,223)	-	-	(174,230)	(194,223)
Amortization of						
Net prior service costs	-	-	(325)	(339)	(325)	(339)
Net losses	-	22,054	(868)	311	(868)	22,365
Net periodic benefit cost	<u>\$ 24,771</u>	<u>\$ 16,701</u>	<u>\$ 6,405</u>	<u>\$ 6,631</u>	<u>\$ 31,176</u>	<u>\$ 23,332</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	
	2023	2022	2023	2022	2023	2022
Net assets without donor restriction						
Net actuarial loss	\$ 45,590	\$ (87,766)	\$ 31,590	\$ 20,407	\$ 77,180	\$ (67,359)
Net prior service costs	-	-	1,322	1,647	1,322	1,647
Accumulated net assets without donor restriction	<u>45,590</u>	<u>(87,766)</u>	<u>32,912</u>	<u>22,054</u>	<u>78,502</u>	<u>(65,712)</u>
Adjustment to net assets without donor restriction	\$ (133,356)	\$ (526,289)	\$ (10,858)	\$ (19,017)	\$ (144,214)	\$ (545,306)

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

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	
	2023	2022	2023	2022
Weighted-average assumptions used to determine benefit obligation at year end				
Discount rate	5.46 %	4.71 %	5.53 %	4.72 %
Rate of compensation increase	3.22	3.20	3.22	3.20
Cash balance interest credit rate		4.00/6.00		0.00
Weighted-average assumptions for net periodic benefit cost				
Discount rate	4.71/5.39	2.64 - 3.12	4.72 %	2.89 %
Expected long-term return on plan assets	6.90/6.75	4.50 - 7.50	N/A	N/A
Rate of compensation increase	3.20	3.21	3.20	3.21
Cash balance interest credit rate	4.00/6.00	4.00/6.00	N/A	0.00
Assumed health care trend rates				
Health care cost trend rate assumed for next fiscal year (pre-65/post-65)			5.36%/5.37%	5.36%/5.37%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.00%	4.00%
Ultimate trend rate is reached in fiscal year			2047	2047
Medicare Part B trend rate assumed for next fiscal year			4.95%	4.98%
Ultimate trend rate			4.00%	4.00%
Ultimate trend rate is reached in fiscal year			2047	2047
Assumed prescription drug trend rates at June 30				
Health care cost trend rate assumed for next fiscal year			5.83%	5.83%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.00%	4.00%
Ultimate trend rate is reached in fiscal year			2047	2047

Expected Contributions

UPHS expects to contribute \$16,916,000 and \$8,937,000 for pension benefits and other postretirement benefits, respectively, during the fiscal year ending June 30, 2024.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

12. Pension and Postretirement Benefit Costs (continued)

Expected Benefit Payments (in thousands):

	Pension Benefits	Other Post Retirement Benefit Before Medicare Part D Subsidy	Medicare Part D Subsidy
June 30, 2024	144,638	9,012	(75)
June 30, 2025	148,653	9,083	(78)
June 30, 2026	156,597	9,144	(81)
June 30, 2027	164,430	9,121	(83)
June 30, 2028	172,271	9,134	(84)
June 30, 2029 to June 30, 2033	962,301	44,148	(422)

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, 2023 and 2022

12. Pension and Postretirement Benefit Costs (continued)

A summary of plan assets, measured at fair value, as of June 30, 2023 and 2022 is as follows (in thousands):

	Level 1	Level 2	Level 3	Investments at NAV	2023
Assets					
Short-term investments	\$ 107,503	\$ -	\$ -	\$ -	\$ 107,503
Equity investments					
US equities	30,419	-	-	136,200	166,619
International equities	-	-	-	157,063	157,063
Emerging markets equities	-	-	-	31,795	31,795
Debt investments					
US Treasuries and Agencies	1,138,772	-	-	-	1,138,772
Corporate bonds	-	23	-	-	23
Absolute return	-	-	-	596,572	596,572
Real assets	16,784	-	-	171,690	188,474
Private equity	-	-	-	507,400	507,400
	<u>\$ 1,293,478</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 1,600,720</u>	<u>\$ 2,894,221</u>
Liabilities					
Derivative instruments					
Options	\$ -	\$ 12,972	\$ -	\$ -	\$ 12,972
	<u>\$ -</u>	<u>\$ 12,972</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,972</u>

	Level 1	Level 2	Level 3	Investments at NAV	2022
Assets					
Short-term investments	\$ 202,077	\$ -	\$ -	\$ -	\$ 202,077
Equity investments					
US equities	27,843	-	-	133,219	161,062
International equities	17,833	-	-	196,037	213,870
Emerging markets equities	-	-	-	166,740	166,740
Debt investments					
US Treasuries	749,872	-	-	-	749,872
Corporate bonds	89,031	21	-	-	89,052
Absolute return	-	-	-	662,583	662,583
Real assets	47,629	-	1,419	170,741	219,789
Private equity	-	-	-	520,834	520,834
	<u>\$ 1,134,285</u>	<u>\$ 21</u>	<u>\$ 1,419</u>	<u>\$ 1,850,154</u>	<u>\$ 2,985,879</u>
Liabilities					
Derivative instruments					
Options	\$ -	-	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

12. Pension and Postretirement Benefit Costs (continued)

As of June 30, 2023, the plan has unfunded commitments to limited partnerships totaling \$269,263,000, 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, 2023 and 2022 there were no transfers between Level 1 and 2.

Allocation of Plan Assets:

	Pension Benefits		
	Target	2023	2022
Short-term investments	0.0 %	3.3%	6.7%
Equity investments			
US equities	5.0 %	5.8%	5.4%
International equities	6.0 %	5.5%	7.2%
Emerging markets equities	6.0 %	1.1%	5.6%
Debt investments			
US Treasuries	30.0 %	39.5%	25.1%
Corporate bonds	0.0 %	0.0%	3.0%
Absolute return	22.0 %	20.7%	22.2%
Real assets	10.0 %	6.5%	7.4%
Private equity	21.0 %	17.6%	17.4%
	<u>100.0 %</u>	<u>100.0%</u>	<u>100.0%</u>

13. Net Patient Revenue by Payer

	<u>2023</u>	<u>2022</u>
Medicare (including Managed Medicare)	34 %	33 %
Medicaid (including Managed Medicaid)	12	13
Managed care	33	33
Blue cross	16	16
Commercial	4	4
Self pay	1	1
	<u>100 %</u>	<u>100 %</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022, respectively, is as follows:

	<u>2023</u>	<u>2022</u>
Medicare	14 %	15 %
Medicaid	3	2
Managed care (including Managed Medicare and Medicaid)	53	51
Blue cross	13	13
Commercial	12	13
Self pay	5	6
	<u>100 %</u>	<u>100 %</u>

15. Lease Commitments

UPHS leases real estate and equipment under operating leases expiring through April 2107. Under the newly adopted accounting standard for leases, a lease conveys the right to control the use of an identified asset for a period of time in exchange for consideration. On the Combined Balance Sheets, lessees are required to record Right-of-Use assets, representing the right to use the underlying assets for the lease term, and Lease Liabilities, representing the obligation to make lease payments arising from the lease based on the present value of lease payments over the lease term. UPHS has made the following elections: (1) to adopt a package of practical expedients relating to reassessment, (2) to exclude leases with a term of less than one year, and (3) to use an incremental borrowing rate for discounting leases, as applicable. Right-of-Use assets recorded in Other assets were \$301,126,000 and \$314,714,000 and Lease Liabilities recorded in Accrued expenses and other liabilities were \$304,297,000 and \$321,843,000, as of June 30, 2023 and 2022, respectively. At June 30, 2023, the weighted average remaining lease term was 9.4 years and the weighted average discount rate was 2.2%. Rental expense is included in Supplies and other expenses on the Combined Statements of Activities. Rental expense totaled \$100,884,000 and \$99,213,000, while amortization of Right-of-use asset was \$43,800,000 and \$44,189,000 for the year ended June 30, 2023 and 2022, respectively.

A summary of future minimum payments under operating leases at June 30, 2023, is as follows (in thousands):

2024	\$ 49,247
2025	50,449
2026	41,780
2027	35,086
2028	29,913
Thereafter	<u>154,080</u>
Total lease payments	360,555
Less: Imputed interest	<u>(56,258)</u>
Total future lease payments	<u>\$ 304,297</u>

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

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. Effective June 30, 2023, Lancaster General Insurance Company was merged into Risk Retention Group (Captive).

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% discount rate at June 30, 2023 and June 30, 2022. Total liability under this program is approximately \$866,118,000 and \$797,620,000 with a corresponding receivable of \$200,145,000 and \$119,795,000 at June 30, 2023 and 2022, 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 \$37,665,000 and \$31,336,000 of costs were incurred during 2023 and 2022, 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. UPHS also provides care to patients who do not have health insurance or meet the

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2023 and 2022

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

criteria to qualify for its charity care policy. UPHS pursues collection of these amounts, however certain amounts are deemed to be uncollectible. Implicit price concessions, which reduce net patient service revenue was \$168,068,000 and \$195,591,000 for years ending June 30, 2023 and 2022, respectively.

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 \$381,243,000 and \$358,390,000 in 2023 and 2022, 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. UPHS is involved in a legal matter whereby a jury awarded \$182,738,000 to a plaintiff in a medical malpractice case against UPHS. UPHS is appealing the verdict. 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, 2023, construction contract commitments are estimated to total \$114,360,000.

UPHS maintains various unused letters of credit with expirations at various dates through fiscal year 2025 totaling \$13,413,000 and \$12,008,000 at June 30, 2023 and 2022, respectively, to cover balances due on construction projects and reinsurance agreements.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

19. Liquidity and Availability

As of June 30, 2023, 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>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$875,232	\$ 816,111
Current receivables	1,227,495	1,165,867
Pledge payment available for operations	1,715	2,158
Designated investments and Investments	1,970,093	2,247,881
Total financial assets available within one year	<u>\$4,074,535</u>	<u>\$ 4,232,017</u>
Liquidity resources		
Bank lines of credit	95,029	95,291
Total financial assets and liquidity resources available within one year	<u>\$4,169,564</u>	<u>\$ 4,327,308</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 designated investments, in Assets whose use is limited, for general expenditures.

20. Investment Returns

A summary of the investment return, which is net of external and direct internal investment expenses, for the years ended June 30, 2023 and 2022 is presented below (in thousands).

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 51,063	\$ 23,676
Net realized changes on investments	82,208	321,546
Changes in unrealized gain/(loss) on investments, other than debt	(40,001)	(387,316)
Investment income/(loss), net	93,270	(42,094)
Changes in unrealized gain/(loss) on debt investments	545	(7,021)
Net realized and unrealized gain/(loss) on restricted funds	8,597	(39,940)
Total investment return, net	<u>\$ 102,412</u>	<u>\$ (89,055)</u>

21. Subsequent Events

UPHS has evaluated subsequent events through September 28, 2023, which is the date the combined financial statements were issued.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2023 and 2022

Supplementary Combining Information

University of Pennsylvania Health System
Combining Balance Sheet
June 30, 2023 (thousands of dollars)

	CPUP	CCA	HUP	PPMC	TCCHS	PAH - UPHS	LGH	PHCS	Wissahickon Hospice/ Homecare	Corporate	RRG/ Captive	Eliminations	Total
Assets													
Current													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119,378	\$ 11,028	\$ 72,767	\$ 672,059	\$ -	\$ -	\$ 875,232
Due from (to) UPHS central treasury	405,007	32,052	1,092,301	(27,504)	(100,002)	35,511	-	-	31,623	(1,468,988)	-	-	-
Patient receivables, net	76,060	27,174	387,730	100,799	54,527	80,052	197,662	65,104	38,950	-	-	-	1,028,058
Third party payer receivables	-	-	37,013	1,392	49	1,471	-	-	-	-	-	-	39,925
Assets held for sale	-	-	-	-	-	-	43,369	-	-	-	-	-	43,369
Other current assets	23,303	3,264	131,559	57,661	19,061	39,419	51,304	18,986	16,044	65,688	100,000	(100,000)	426,289
Total current assets	504,370	62,490	1,648,603	132,348	(26,365)	156,453	411,713	95,118	159,384	(731,241)	100,000	(100,000)	2,412,873
Assets whose use is limited													
Held by trustee	118,999	-	2,735	-	-	-	5,475	6,163	-	34,956	-	-	168,328
RRG/Captive	-	-	-	-	-	-	(132)	-	-	-	201,459	-	201,327
Designated	41,000	-	750,386	-	-	97,221	1,494,986	269,552	-	1,218,594	-	-	3,871,739
Donor-restricted investments	-	-	170,381	190,421	54,871	341,002	51,930	39,668	1,129	1,268	-	-	850,670
	159,999	0	923,502	190,421	54,871	438,223	1,552,259	315,383	1,129	1,254,818	201,459	-	5,092,064
Investments	-	-	-	-	-	141	-	165	74	125,013	-	-	125,393
Property and equipment, net	15,839	40,447	2,853,898	425,479	434,659	218,616	891,904	353,560	5,577	675,064	-	-	5,915,043
Other assets	59,723	25,167	51,666	139,688	47,663	1,613	64,712	46,868	6,334	340,827	-	-	784,261
Total assets	\$ 739,931	\$ 128,104	\$ 5,477,669	\$ 887,936	\$ 510,828	\$ 815,046	\$ 2,920,588	\$ 811,094	\$ 172,498	\$ 1,664,481	\$ 301,459	\$ (100,000)	\$ 14,329,634
Liabilities and Net Assets													
Current													
Accounts payable	\$ 49	\$ 190	\$ 22	\$ 9	\$ 8,194	\$ 389	\$ 45,805	\$ 13,347	\$ 347	\$ 222,805	\$ -	\$ -	\$ 291,157
Accrued expenses	145,172	49,991	186,176	59,343	26,124	32,460	100,949	41,098	24,156	383,595	2,107	(100,000)	951,171
Current portion of long-term debt	-	-	33,413	6,891	188	5,157	14,536	6,459	118	-	-	-	66,762
Current portion of notes payable	-	-	-	-	-	-	-	-	-	-	-	-	0
Due to the University of Pennsylvania	-	-	-	-	-	-	-	-	-	1,198	-	-	1,198
Liabilities associated with assets held for sale	-	-	-	-	-	-	19,046	-	-	-	-	-	19,046
Third party payer settlements	-	-	14,780	4,183	1,824	1,346	5,585	-	-	-	-	-	27,718
Total current liabilities	145,221	50,181	234,391	70,426	36,330	39,352	185,921	60,904	24,621	607,598	2,107	(100,000)	1,357,052
Long-term debt, net of current portion	-	-	1,197,707	78,556	359,380	83,809	328,867	247,933	-	168,333	-	-	2,464,585
Due to the University of Pennsylvania	-	-	-	-	-	-	-	-	-	35,000	-	-	35,000
Third party payer settlements, net of current portion	(5)	-	-	-	-	5,291	-	1,094	5,446	10,958	-	-	22,784
Other liabilities	58,118	20,378	50,435	78,530	39,597	1,346	29,209	25,695	5,989	655,024	273,710	-	1,238,031
Pension and postretirement benefit liability	118,999	-	-	-	-	-	851	0	-	135,319	-	-	255,169
Total liabilities	322,333	70,559	1,482,533	227,512	435,307	129,798	544,848	335,626	36,056	1,612,232	275,817	(100,000)	5,372,621
Net assets													
Net assets without donor restriction	417,569	56,948	3,817,494	470,387	20,650	344,246	2,324,137	433,273	133,469	51,160	25,642	-	8,094,975
Net assets with donor restrictions	29	597	177,642	190,037	54,871	341,002	51,603	42,195	2,973	1,089	-	-	862,038
Total net assets	\$417,598	\$57,545	\$3,995,136	\$660,424	\$75,521	\$685,248	\$2,375,740	\$475,468	\$136,442	\$52,249	\$25,642	\$0	\$8,957,013
Total liabilities and net assets	\$ 739,931	\$ 128,104	\$ 5,477,669	\$ 887,936	\$ 510,828	\$ 815,046	\$ 2,920,588	\$ 811,094	\$ 172,498	\$ 1,664,481	\$ 301,459	\$ (100,000)	\$ 14,329,634

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the combined financial position and results of the individual entities.

University of Pennsylvania Health System
Combining Balance Sheet
June 30, 2022 (thousands of dollars)

	CPUP	CCA	HUP	PPMC	TCCHS	PAH - UPHS	LGH	PHCS	Wissahickon Hospice/ Homecare	Corporate	RRG/ Captive	Eliminations	Total
Assets													
Current													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 92,597	\$ 56,149	\$ 51,095	\$ 616,270	\$ -	\$ -	\$ 816,111
Due from (to) UPHS central treasury	365,113	30,473	755,141	12,816	(46,239)	44,863	-	-	31,623	(1,193,790)	-	-	-
Patient receivables, net	76,547	30,019	388,839	107,590	55,410	74,515	183,871	57,443	38,708	-	-	-	1,012,942
Third party payer receivables	-	-	3,248	1,358	101	1,468	-	-	-	-	-	-	6,175
Other current assets	19,242	3,655	131,316	50,926	18,352	35,295	70,486	17,889	12,246	45,389	-	-	404,796
Total current assets	460,902	64,147	1,278,544	172,690	27,624	156,141	346,954	131,481	133,672	(532,131)	-	-	2,240,024
Assets whose use is limited													
Held by trustee	110,047	-	7,190	-	-	-	8,483	5,805	-	33,694	-	-	165,219
RRG/Captive	-	-	-	-	-	-	58,471	-	-	-	245,785	-	304,256
Designated	36,000	-	944,468	-	-	96,239	1,539,281	268,091	-	1,210,858	-	-	4,094,937
Donor-restricted investments	-	-	172,485	196,050	21,348	348,736	49,072	29,662	980	2,215	-	-	820,548
	146,047	-	1,124,143	196,050	21,348	444,975	1,655,307	303,558	980	1,246,767	245,785	-	5,384,960
Investments	-	-	-	-	-	141	66,907	170	70	124,770	-	-	192,058
Property and equipment, net	14,153	40,487	2,970,503	388,371	427,675	225,638	910,565	360,985	5,520	605,436	-	-	5,949,333
Other assets	61,110	26,124	56,232	127,754	37,382	2,259	68,567	53,290	(121)	197,323	-	-	629,919
Total assets	\$ 682,212	\$ 130,758	\$ 5,429,422	\$ 884,865	\$ 514,029	\$ 829,154	\$ 3,048,300	\$ 849,484	\$ 140,121	\$ 1,642,165	\$ 245,785	\$ -	\$ 14,396,294
Liabilities and Net Assets													
Current													
Accounts payable	\$ 14	\$ 35	\$ (34)	\$ (18)	\$ 2,018	\$ 605	\$ 47,949	\$ 15,170	\$ 285	\$ 225,634	\$ -	\$ -	\$ 291,658
Accrued expenses	149,067	53,582	179,397	60,227	36,769	41,212	136,930	46,223	24,333	365,976	(3,071)	-	1,090,645
Current portion of long-term debt	-	-	27,005	7,195	-	4,870	5,611	6,169	-	4,952	-	-	55,802
Due to the University of Pennsylvania	(224)	-	-	-	-	-	-	-	-	1,527	-	-	1,303
Third party payer settlements	-	-	70,282	30,375	9,293	10,052	31,780	12,385	-	-	-	-	164,167
Total current liabilities	148,857	53,617	276,650	97,779	48,080	56,739	222,270	79,947	24,619	598,089	(3,071)	-	1,603,575
Long-term debt, net of current portion	-	-	1,242,301	88,055	349,853	89,783	354,810	255,916	-	161,132	-	-	2,541,850
Third party payer settlements, net of current portion	(5)	-	-	-	-	5,291	-	2,642	4,677	8,181	-	-	20,786
Due to the University of Pennsylvania	-	-	-	-	-	-	-	-	-	40,000	-	-	40,000
Other liabilities	59,292	21,743	55,768	83,356	31,275	1,746	94,681	31,439	64	578,278	230,888	-	1,188,530
Pension and postretirement benefit liability	110,047	-	-	-	-	-	115,980	8,906	-	150,328	-	-	385,261
Total liabilities	318,191	75,360	1,574,719	269,190	429,208	153,559	787,741	378,850	29,360	1,536,008	227,817	-	5,780,003
Net assets													
Net assets without donor restriction	363,971	54,932	3,676,079	420,489	41,618	326,860	2,211,632	434,470	109,190	104,117	17,968	-	7,761,326
Net assets with donor restrictions	50	466	178,624	195,186	43,203	348,735	48,927	36,163	1,571	2,040	-	-	854,965
Total net assets	364,021	55,398	3,854,703	615,675	84,821	675,595	2,260,559	470,633	110,761	106,157	17,968	-	8,616,291
Total liabilities and net assets	\$ 682,212	\$ 130,758	\$ 5,429,422	\$ 884,865	\$ 514,029	\$ 829,154	\$ 3,048,300	\$ 849,483	\$ 140,121	\$ 1,642,165	\$ 245,785	\$ -	\$ 14,396,294

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the combined financial position and results of the individual entities.

University of Pennsylvania Health System
Combining Statement of Operations
Year Ended June 30, 2023 (thousands of dollars)

	CPUP	CCA	HUP	PPMC	TCCHS	PAH - UPHS	LGH	PHCS	Wissahickon Hospice/ Homecare	Corporate	RRG/ Captive	Eliminations	Total
Revenues													
Net patient service revenue	\$ 685,396	\$ 318,984	\$ 3,187,784	\$ 923,296	\$ 473,604	\$ 740,217	\$ 1,514,239	\$ 573,256	\$ 310,590	\$ 77	\$ -	\$ -	\$ 8,727,443
Other revenue and support	135,962	41,582	596,444	228,048	20,249	71,163	173,646	19,934	22,139	59,815	46,562	(168,290)	1,247,254
Total revenues	821,358	360,566	3,784,228	1,151,344	493,853	811,380	1,687,885	593,190	332,729	59,892	46,562	(168,290)	9,974,697
Expenses													
Salaries and wages	813,921	217,509	970,537	334,772	193,991	281,437	730,809	260,421	138,983	321,303	-	-	4,263,683
Employee benefits	149,639	47,155	282,336	94,337	49,103	78,159	188,711	60,267	36,534	78,775	-	-	1,065,016
Supplies and other expenses	92,857	105,033	1,413,382	454,147	186,139	283,571	600,569	191,679	127,471	337,022	780	1,135	3,793,785
Corporate services/inter-entity support	(333,973)	(21,895)	703,758	175,935	54,299	124,165	94,523	51,728	13,462	(739,139)	-	(122,863)	-
Depreciation and amortization	3,914	3,240	164,399	33,438	26,086	27,178	72,177	31,058	1,329	51,702	-	-	414,521
Malpractice	41,390	7,672	21,093	7,267	1,520	6,901	10,301	1,832	52	5	45,782	(46,562)	97,253
Interest	-	-	55,441	2,821	4,733	2,825	7,180	9,451	-	(902)	-	-	81,549
Perlerman School of Medicine (PSOM) support	-	-	12,058	3,632	-	-	-	-	-	5,027	-	-	20,717
Total expenses	767,748	358,714	3,623,004	1,106,349	515,871	804,236	1,704,270	606,436	317,831	53,793	46,562	(168,290)	9,736,524
Excess (deficit) of revenue over expenses from operations	53,610	1,852	161,224	44,995	(22,018)	7,144	(16,385)	(13,246)	14,898	6,099	-	-	238,173
Nonoperating gains (loss)													
Investment Income, net	14,844	184	41,658	(223)	(374)	5,117	32,496	3,097	2,149	(13,352)	7,674	-	93,270
Other non-operating (loss)/income, net	0	(20)	15,915	5,125	(209)	5,381	(24,944)	(745)	(965)	6	0	-	(456)
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess (deficit) of revenue over expenses	68,454	2,016	218,797	49,897	(22,601)	17,642	(8,833)	(10,894)	16,082	(7,247)	7,674	-	330,987
Change in unrealized gain (loss) on investments	-	-	-	-	-	-	-	-	-	545	-	-	545
Transfers to PSOM and University, net	(28,953)	-	(95,497)	-	-	(703)	-	-	(164)	(36,603)	-	-	(161,920)
Transfers to the other Health System entities	14,098	100	395	-	-	-	121,327	9,655	8,359	(153,934)	-	-	-
Net assets released from restrictions for capital	-	(100)	17,720	-	1,634	449	77	43	-	-	-	-	19,823
Pension and other postretirement plan adjustments	-	-	-	-	-	-	(66)	-	-	144,280	-	-	144,214
Increase/(decrease) in net assets without donor restriction	\$ 53,599	\$ 2,016	\$ 141,415	\$ 49,897	\$ (20,967)	\$ 17,388	\$ 112,505	\$ (1,196)	\$ 24,277	\$ (52,959)	\$ 7,674	\$ -	\$ 333,649

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the combined financial position and results of the individual entities.

University of Pennsylvania Health System
Combining Statement of Operations
Year Ended June 30, 2022 (thousands of dollars)

	CPUP	CCA	HUP	PPMC	TCCHS	PAH - UPHS	LGH	PHCS	Wissahickon Hospital/ Homecare	Corporate	RRG/ Captive	Eliminations	Total
Revenues													
Net patient service revenue	\$ 660,824	\$ 294,312	\$ 2,898,482	\$ 869,232	\$ 427,937	\$ 694,387	\$ 1,464,991	\$ 523,076	\$ 270,982	\$ 166	\$ -	\$ -	\$ 8,104,389
Other revenue and support	127,654	33,369	523,129	187,692	23,061	72,071	176,320	17,637	13,163	57,514	46,562	(178,154)	1,100,018
Total revenues	788,478	327,681	3,421,611	1,056,924	450,998	766,458	1,641,311	540,713	284,145	57,680	46,562	(178,154)	9,204,407
Expenses													
Salaries and wages	759,785	191,188	918,422	320,217	184,636	275,071	700,029	233,721	124,409	336,003	-	-	4,043,481
Employee benefits	139,847	40,017	273,511	91,377	44,723	76,346	179,822	52,636	33,997	78,219	-	-	1,010,495
Supplies and other expenses	107,689	93,365	1,251,118	400,023	168,215	268,313	560,762	174,892	100,161	323,137	780	(8,619)	3,439,836
Corporate services/inter-entity support	(309,952)	(16,936)	685,479	163,209	54,385	128,692	80,854	49,246	13,079	(723,796)	-	(124,260)	-
Depreciation and amortization	4,299	2,860	141,260	31,074	25,407	28,379	67,999	35,155	1,049	50,476	-	-	387,958
Malpractice	41,590	7,970	20,805	6,704	1,698	6,492	11,480	2,249	63	(15,000)	45,782	(45,275)	84,558
Interest	-	-	41,093	4,078	5,099	2,860	10,027	7,148	-	(292)	-	-	70,013
Pererlman School of Medicine (PSOM) support	-	-	11,955	3,699	-	-	-	-	-	4,934	-	-	20,588
Total expenses	743,258	318,464	3,343,643	1,020,381	484,163	786,153	1,610,973	555,047	272,758	53,681	46,562	(178,154)	9,056,929
Excess (deficit) of revenue over expenses from operations	45,220	9,217	77,968	36,543	(33,165)	(19,695)	30,338	(14,334)	11,387	3,999	-	-	147,478
Nonoperating gains (loss)													
Investment Income, net	13,906	1,745	55,425	2,481	349	2,852	(30,666)	2,150	1,472	(91,974)	167	-	(42,093)
Other non-operating (loss)/income, net	(9)	(3,474)	27,664	10,203	6,058	11,547	7,081	2,085	18	(6,245)	-	-	54,928
Gain/(Loss) on extinguishment of debt	-	-	-	-	-	-	-	-	-	3,398	-	-	3,398
Excess (deficit) of revenue over expenses	59,117	7,488	161,057	49,227	(26,758)	(5,296)	6,753	(10,099)	12,877	(90,822)	167	-	163,711
Change in unrealized gain (loss) on investments	-	-	-	-	-	-	-	-	-	(7,021)	-	-	(7,021)
Transfers to PSOM and University, net	(45,856)	-	(75,945)	-	-	(635)	-	-	(160)	(36,748)	-	-	(159,344)
Transfers to the other Health System entities	15,298	-	1,064	-	-	-	-	-	-	(16,362)	-	-	-
Net assets released from restrictions for capital	-	-	52	-	78	19	726	23	-	-	-	-	898
Pension and other postretirement plan adjustments	-	-	-	-	-	-	69,612	(4,140)	-	479,834	-	-	545,306
Increase/(decrease) in net assets without donor restriction	\$ 28,559	\$ 7,488	\$ 86,228	\$ 49,227	\$ (26,680)	\$ (5,912)	\$ 77,091	\$ (14,216)	\$ 12,717	\$ 328,881	\$ 167	\$ -	\$ 543,550

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the combined financial position and results of the individual entities.

University of Pennsylvania Health System
Combining Balance Sheet of PHCS
June 30, 2023 (thousands of dollars)

	Princeton Medical Center & Princeton House Behavior Health	Princeton HealthCare System Foundation	Princeton HealthCare System Other	Princeton HealthCare System Elimination	Princeton HealthCare System
Assets					
Current					
Cash and cash equivalents	\$ 43,882	\$ 359	\$ (35,680)	\$ 2,467	\$ 11,028
Patient receivables, net	63,048	-	2,056	-	65,104
Other current assets	17,449	38	1,499	-	18,986
Total current assets	<u>124,379</u>	<u>397</u>	<u>(32,125)</u>	<u>2,467</u>	<u>95,118</u>
Assets whose use is limited					
Held by trustee	6,163	-	-	-	6,163
Designated	221,827	47,725	-	-	269,552
Donor-restricted	-	42,193	-	(2,525)	39,668
	<u>227,990</u>	<u>89,918</u>	<u>-</u>	<u>(2,525)</u>	<u>315,383</u>
Investments	-	107	-	58	165
Property and equipment, net	353,039	213	308	-	353,560
Other assets	76,940	-	735	(30,807)	46,868
Total assets	<u>\$ 782,348</u>	<u>\$ 90,635</u>	<u>\$ (31,082)</u>	<u>\$ (30,807)</u>	<u>\$ 811,094</u>
Liabilities and Net Assets					
Current					
Accounts payable	\$ 12,414	\$ 33	\$ 900	\$ -	\$ 13,347
Accrued expenses	38,392	54	2,652	-	41,098
Current portion of long-term debt	6,459	-	-	-	6,459
Total current liabilities	<u>57,265</u>	<u>87</u>	<u>3,552</u>	<u>-</u>	<u>60,904</u>
Long-term debt, net of current portion	247,933	-	-	-	247,933
Third party payer settlements, net of current portion	1,094	-	-	-	1,094
Other liabilities	24,958	-	737	-	25,695
Total liabilities	<u>331,250</u>	<u>87</u>	<u>4,289</u>	<u>-</u>	<u>335,626</u>
Net assets					
Net assets without donor restriction	420,164	48,503	(35,371)	(23)	433,273
Net assets with donor restriction	30,934	42,045	-	(30,784)	42,195
Total net assets	<u>451,098</u>	<u>90,548</u>	<u>(35,371)</u>	<u>(30,807)</u>	<u>475,468</u>
Total liabilities and net assets	<u>\$ 782,348</u>	<u>\$ 90,635</u>	<u>\$ (31,082)</u>	<u>\$ (30,807)</u>	<u>\$ 811,094</u>

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the combined financial position and results of the individual entities.

University of Pennsylvania Health System
Combining Balance Sheet of PHCS
June 30, 2022 (thousands of dollars)

	Princeton Medical Center & Princeton House Behavior Health	Princeton HealthCare System Foundation	Princeton HealthCare System Other	Princeton HealthCare System Elimination	Princeton HealthCare System
Assets					
Current					
Cash and cash equivalents	\$ 70,286	\$ (170)	\$ (20,622)	\$ 6,655	\$ 56,149
Patient receivables, net	55,027	-	2,416	-	57,443
Other current assets	15,579	37	2,273	-	17,889
Total current assets	<u>140,892</u>	<u>(133)</u>	<u>(15,933)</u>	<u>6,655</u>	<u>131,481</u>
Assets whose use is limited					
Held by trustee	5,805	-	-	-	5,805
Designated	219,583	48,508	-	-	268,091
Donor-restricted	-	36,381	-	(6,719)	29,662
	<u>225,388</u>	<u>84,889</u>	<u>-</u>	<u>(6,719)</u>	<u>303,558</u>
Investments	-	106	-	64	170
Property and equipment, net	360,369	237	379	-	360,985
Other assets	76,189	-	1,416	(24,315)	53,290
Total assets	<u>\$ 802,838</u>	<u>\$ 85,099</u>	<u>\$ (14,138)</u>	<u>\$ (24,315)</u>	<u>\$ 849,484</u>
Liabilities and Net Assets					
Current					
Accounts payable	\$ 13,492	\$ 13	\$ 1,665	\$ -	\$ 15,170
Accrued expenses	43,452	56	2,715	-	46,223
Current portion of long-term debt	6,169	-	-	-	6,169
Third party payer settlements	12,385	-	-	-	12,385
Total current liabilities	<u>75,498</u>	<u>69</u>	<u>4,380</u>	<u>-</u>	<u>79,947</u>
Long-term debt, net of current portion	255,916	-	-	-	255,916
Third party payer settlements, net of current portion	2,642	-	-	-	2,642
Other liabilities	30,364	-	1,075	-	31,439
Pension and postretirement benefit liability	8,906	-	-	-	8,906
Total liabilities	<u>373,326</u>	<u>69</u>	<u>5,455</u>	<u>-</u>	<u>378,850</u>
Net assets					
Net assets without donor restriction	405,069	49,017	(19,593)	(23)	434,470
Net assets with donor restriction	24,443	36,013	-	(24,292)	36,164
Total net assets	<u>429,512</u>	<u>85,030</u>	<u>(19,593)</u>	<u>(24,315)</u>	<u>470,634</u>
Total liabilities and net assets	<u>\$ 802,838</u>	<u>\$ 85,099</u>	<u>\$ (14,138)</u>	<u>\$ (24,315)</u>	<u>\$ 849,484</u>

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the combined financial position and results of the individual entities.

University of Pennsylvania Health System
Combining Statement of Operations of PHCS
Year Ended June 30, 2023 (thousands of dollars)

	Princeton Medical Center	Princeton House Behavior Health	Princeton Medical Center & Princeton House Behavior Health	Princeton HealthCare System Foundation	Princeton HealthCare System Other	Princeton HealthCare System Elimination	Subtotal Princeton HealthCare System
Revenues							
Net patient service revenue	\$ 463,290	\$ 80,514	\$ 543,804	\$ -	\$ 29,452	\$ -	\$ 573,256
Other revenue	10,168	44	10,212	4,587	8,301	(3,166)	19,934
Total revenues	<u>473,458</u>	<u>80,558</u>	<u>554,016</u>	<u>4,587</u>	<u>37,753</u>	<u>(3,166)</u>	<u>593,190</u>
Expenses							
Salaries and wages	181,157	34,725	215,882	989	43,550	-	260,421
Employee benefits	43,262	9,004	52,266	226	7,775	-	60,267
Supplies and expenses	170,536	24,564	195,100	4,291	(4,546)	(3,166)	191,679
Corporate services/inter-entity support	37,758	8,788	46,546	-	5,182	-	51,728
Depreciation and amortization	29,153	1,818	30,971	25	62	-	31,058
Malpractice	978	133	1,111	-	721	-	1,832
Interest	9,451	-	9,451	-	-	-	9,451
Total expenses	<u>472,295</u>	<u>79,032</u>	<u>551,327</u>	<u>5,531</u>	<u>52,744</u>	<u>(3,166)</u>	<u>606,436</u>
Excess (deficit) of revenue over expenses from operations	1,163	1,526	2,689	(944)	(14,991)	-	(13,246)
Nonoperating gains (loss)							
Investment Income, net	3,454	-	3,454	430	(787)	-	3,097
Contributions, other support and other gain/(loss), net	(745)	-	(745)	-	-	-	(745)
Excess (deficit) of revenue over expenses	<u>3,872</u>	<u>1,526</u>	<u>5,398</u>	<u>(514)</u>	<u>(15,778)</u>	<u>-</u>	<u>(10,894)</u>
Net assets released from restrictions for capital	43	-	43	-	-	-	43
Transfers	9,655	-	9,655	-	-	-	9,655
Increase in net assets without donor restriction	<u>\$ 13,570</u>	<u>\$ 1,526</u>	<u>\$ 15,096</u>	<u>\$ (514)</u>	<u>\$ (15,778)</u>	<u>\$ -</u>	<u>\$ (1,196)</u>

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the combined financial position and results of the individual entities.

University of Pennsylvania Health System
Combining Statement of Operations of PHCS
Year Ended June 30, 2022 (thousands of dollars)

	Princeton Medical Center	Princeton House Behavior Health	Princeton Medical Center & Princeton House Behavior Health	Princeton HealthCare System Foundation	Princeton HealthCare System Other	Princeton HealthCare System Elimination	Subtotal Princeton HealthCare System
Revenues							
Net patient service revenue	\$ 432,642	\$ 59,824	\$ 492,466	\$ -	\$ 30,610	\$ -	\$ 523,076
Other revenue	10,412	37	10,449	2,494	6,011	(1,317)	17,637
Total revenues	<u>443,054</u>	<u>59,861</u>	<u>502,915</u>	<u>2,494</u>	<u>36,621</u>	<u>(1,317)</u>	<u>540,713</u>
Expenses							
Salaries and wages	159,477	33,047	192,524	926	40,271	-	233,721
Employee benefits	36,493	8,772	45,265	215	7,156	-	52,636
Supplies and expenses	157,946	20,210	178,156	2,195	(4,142)	(1,317)	174,892
Corporate services/inter-entity support	42,337	2,192	44,529	-	4,717	-	49,246
Depreciation and amortization	33,134	1,928	35,062	30	63	-	35,155
Malpractice	1,368	151	1,519	-	730	-	2,249
Interest	7,148	-	7,148	-	-	-	7,148
Total expenses	<u>437,903</u>	<u>66,300</u>	<u>504,203</u>	<u>3,366</u>	<u>48,795</u>	<u>(1,317)</u>	<u>555,047</u>
Excess (deficit) of revenue over expenses from operations	5,151	(6,439)	(1,288)	(872)	(12,174)	-	(14,334)
Nonoperating gains (loss)							
Investment Income, net	1,734	-	1,734	(177)	-	593	2,150
Contributions, other support and other gain/(loss), net	2,191	(32)	2,159	-	519	(593)	2,085
Excess (deficit) of revenue over expenses	9,076	(6,471)	2,605	(1,049)	(11,655)	-	(10,099)
Transfers and net assets released from restrictions for capital	23	-	23	-	-	-	23
Pension and other postretirement plan adjustments	(4,140)	-	(4,140)	-	-	-	(4,140)
Increase in net assets without donor restriction	<u>\$ 4,959</u>	<u>\$ (6,471)</u>	<u>\$ (1,512)</u>	<u>\$ (1,049)</u>	<u>\$ (11,655)</u>	<u>\$ -</u>	<u>\$ (14,216)</u>

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the combined financial position and results of the individual entities.