

University of Pennsylvania Health System

**Combined Financial Statements and Combining
Supplementary Data
June 30, 2021 and 2020**

University of Pennsylvania Health System

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June 30, 2021 and 2020

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Report of Independent Auditors

To the Trustees of the University of Pennsylvania:

We have audited the accompanying combined financial statements of the University of Pennsylvania Health System (UPHS), which comprise the combined balance sheets as of June 30, 2021 and 2020, and the related combined statements of operations, of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the University of Pennsylvania Health System as of June 30, 2021 and 2020, and the results of its operations, 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.



Other Matter

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

PricewaterhouseCoopers LLP

September 23, 2021

University of Pennsylvania Health System
Combined Balance Sheets
June 30, 2021 and 2020 (thousands of dollars)

	<u>2021</u>	<u>2020</u>
Assets		
Current		
Cash and cash equivalents	\$ 1,173,485	\$ 1,501,854
Patient receivables, net	927,009	726,081
Third party payer receivables	5,450	4,014
Due from the University of Pennsylvania	24,233	-
Other current assets	348,560	322,588
Total current assets	<u>2,478,737</u>	<u>2,554,537</u>
Assets whose use is limited		
Held by trustees	186,258	139,028
RRG\Captive	283,865	243,622
Designated	3,946,161	2,833,871
Donor-restricted investments	867,329	657,776
	<u>5,283,613</u>	<u>3,874,297</u>
Investments	958,852	760,788
Property and equipment, net	5,700,083	5,369,409
Other assets	621,947	600,478
Total assets	<u>\$ 15,043,232</u>	<u>\$ 13,159,509</u>
Liabilities and Net Assets		
Current		
Accounts payable	\$ 308,871	\$ 239,330
Accrued expenses	1,054,850	928,168
Current portion of long-term debt	60,335	98,663
Due to the University of Pennsylvania	-	16,562
Third party payer settlements	553,311	690,704
Total current liabilities	<u>1,977,367</u>	<u>1,973,427</u>
Long-term debt, net of current portion	2,617,838	2,692,254
Third party payer settlements, net of current portion	79,113	89
Due to the University of Pennsylvania	45,000	-
Other liabilities	1,249,354	1,179,497
Pension and postretirement benefit liability	967,073	1,542,981
Total liabilities	<u>6,935,745</u>	<u>7,388,248</u>
Net assets		
Net assets without donor restriction	7,217,776	5,098,229
Net assets with donor restriction	889,711	673,032
Total net assets	<u>8,107,487</u>	<u>5,771,261</u>
Total liabilities and net assets	<u>\$ 15,043,232</u>	<u>\$ 13,159,509</u>

See accompanying notes to combined financial statements.

University of Pennsylvania Health System
Combined Statements of Operations
Years Ended June 30, 2021 and 2020 (thousands of dollars)

	<u>2021</u>	<u>2020</u>
Revenues and other support		
Net patient service revenue	\$ 7,545,629	\$ 6,813,226
Other revenue and support	1,132,479	994,662
Total revenues and other support	<u>8,678,108</u>	<u>7,807,888</u>
Expenses		
Salaries and wages	3,581,075	3,398,032
Employee benefits	945,258	858,918
Supplies and other expenses	3,074,725	2,831,651
Depreciation and amortization	333,710	324,642
Malpractice	75,275	96,075
Interest	35,599	36,230
Perelman School of Medicine (PSOM) support	21,583	19,618
Total expenses	<u>8,067,225</u>	<u>7,565,166</u>
Excess of revenue over expenses from operations	610,883	242,722
Non-operating gain (loss)		
Investment income, net	1,208,117	142,452
Contributions, other support and other gain/(loss), net	(21,388)	1,909
Loss on extinguishment of debt	(310)	-
Excess of revenue over expenses	1,797,302	387,083
Changes in unrealized gain/(loss) on investments	(11,334)	6,492
Transfers to PSOM and University, net	(242,422)	(213,666)
Net assets released from restrictions for capital	(20)	7,292
Pension and other postretirement plan adjustments	576,021	(322,972)
Increase/(decrease) in net assets without donor restriction	<u>\$ 2,119,547</u>	<u>\$ (135,771)</u>

See accompanying notes to combined financial statements.

University of Pennsylvania Health System
Combined Statements of Changes in Net Assets
Years Ended June 30, 2021 and 2020 (thousands of dollars)

	Net assets without donor restriction	Net assets with donor restriction	Total
Net assets, June 30, 2019	\$ 5,234,000	\$ 687,776	\$ 5,921,776
Excess of revenue over expenses	387,083	-	387,083
Changes in unrealized gain/(loss) on investments	6,492	-	6,492
Pension and other postretirement plan adjustments	(322,972)	-	(322,972)
Contributions and investment income	-	35,393	35,393
Net assets released from restrictions for			
Operations	-	(29,104)	(29,104)
Capital	7,292	(7,292)	-
Net realized and unrealized gain on restricted funds	-	(13,741)	(13,741)
Transfer to PSOM and University, net	(213,666)	-	(213,666)
Decrease in net assets	(135,771)	(14,744)	(150,515)
Net assets, June 30, 2020	5,098,229	673,032	5,771,261
Excess of revenue over expenses	1,797,302	-	1,797,302
Changes in unrealized gain/(loss) on investments	(11,334)	-	(11,334)
Pension and other postretirement plan adjustments	576,021	-	576,021
Contributions and investment income	-	38,517	38,517
Net assets released from restrictions for			
Operations	-	(34,522)	(34,522)
Capital	(20)	20	-
Net realized and unrealized loss on restricted funds	-	212,664	212,664
Transfer to PSOM and University, net	(242,422)	-	(242,422)
Increase in net assets	2,119,547	216,679	2,336,226
Net assets, June 30, 2021	\$ 7,217,776	\$ 889,711	\$ 8,107,487

See accompanying notes to combined financial statements.

University of Pennsylvania Health System
Combined Statements of Cash Flows
Years Ended June 30, 2021 and 2020 (thousands of dollars)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Increase/(decrease) in net assets	\$ 2,336,226	\$ (150,515)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	320,023	312,982
Gain on asset transaction	(12,038)	(8,022)
Increase (decrease) from changes in		
Patient receivables	(200,928)	100,859
Other current assets	(25,972)	(56,429)
Other assets	4,835	(34,602)
Accounts payable and accrued expenses	197,723	68,136
Estimated third party payer settlements	(59,805)	620,723
Due from University of Pennsylvania	4,205	11,347
Other liabilities	43,552	54,916
Pension and postretirement benefit liability	114	(46,058)
Net realized and unrealized (gain)/loss on investments	(1,334,772)	(58,241)
Transfers, restricted contributions and pension adjustment	(345,303)	523,837
Net cash provided by operating activities	<u>927,860</u>	<u>1,338,933</u>
Cash flows from investing activities		
Net Purchases of property and equipment	(667,998)	(1,054,613)
Purchases of assets whose use is limited and investments	(1,231,162)	(982,213)
Sale of assets whose use is limited and investments	970,902	1,057,676
Release of funds held by trustee for capital	-	157,011
Net cash used for investing activities	<u>(928,258)</u>	<u>(822,139)</u>
Cash flows from financing activities		
Repayment of long-term debt and notes payable	(205,184)	(372,912)
Proceeds from restricted contributions	11,704	12,801
Proceeds from issuance of long-term debt	107,931	779,738
Transfers and other	(242,422)	(213,666)
Net cash provided by/(used for) financing activities	<u>(327,971)</u>	<u>205,961</u>
Net increase/(decrease) in cash and cash equivalents	(328,369)	722,755
Cash, cash equivalents, restricted cash and restricted cash equivalents		
Beginning of year	<u>1,501,854</u>	<u>779,099</u>
End of year	<u>\$ 1,173,485</u>	<u>\$ 1,501,854</u>
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amount capitalized	\$ 44,934	\$ 36,957
Purchases of property and equipment included in accounts payable	\$ 57,649	\$ 60,013
Operating cash flows for operating leases	\$ 43,996	\$ 33,665
Right-of-use assets obtained in exchange for lease liabilities	\$ 26,562	\$ 325,076

See accompanying notes to combined financial statements.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

1. Organization

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

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

2. Significant Accounting Policies

Presentation

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

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 \$201,281,000 and \$213,160,000 were allocated and recognized as Other revenue and support on the Statement of Operations for the years ended June 30, 2021 and June 30, 2020, respectively. As of June 30, 2021, 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 allocated between current and non-current Third party payer settlements on the Balance Sheet. In April 2021, CMS began to recoup Advanced Payments against claims processed.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

2. Significant Accounting Policies (continued)

Third party payer settlements reflected \$535,787,000 and \$599,498,000 in advanced payments as of June 30, 2021 and June 30, 2020, respectively.

Furthermore, the CARES Act allowed employers to defer the deposits and payments of the employer's share of the Social Security taxes. As of June 30, 2021 and June 30, 2020, respectively, \$115,583,000 and \$34,731,000 was deferred and recorded as other liabilities on the Balance Sheet. UPHS recognized revenue related to the CARES Act funding based on information available at June 30, 2021 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.

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 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. A write down in the cost basis of investments is recorded when the decline in fair value of debt security not held for trading has been judged to be other than temporary. Depending on any donor-imposed restrictions on the underlying investments, the amount of the write down is reported as a realized loss in either

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

2. Significant Accounting Policies (continued)

net assets with donor restriction or in excess of revenue over expenses, with no adjustment in the cost basis for subsequent recoveries in fair value. There were no other-than-temporary write downs reported for the years ended June 30, 2021 and June 30, 2020.

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.

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.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

2. Significant Accounting Policies (continued)

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.

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.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

2. Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

2. Significant Accounting Policies (continued)

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

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

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

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, 2021 and 2020

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. As noted below, goodwill is no longer subject to amortization. UPHS performs an annual impairment test of the PPMC reporting unit during the second quarter of the fiscal year. The calculation compares the reporting unit's carrying value to its fair value that is calculated using a discounted cash flow approach, which incorporates market participant data. In addition to the annual impairment test, additional evaluations have been done if circumstances exist that may lead to impairment. There were no goodwill impairments during 2021 or 2020.

Long-Lived Assets

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

Deferred Financing Fees

Deferred financing fees at June 30, 2021 and 2020, totaling \$12,840,000 and \$14,494,000, 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, 2021 and 2020

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, 2021 and 2020

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 \$757,000 and \$1,425,000 and liability of \$6,517,000 and \$8,854,000 as of June 30, 2021 and June 30, 2020, respectively, which represents the fair market value of the swaps. Gains/(losses) on the interest rate swap agreements are recorded as non-operating gain/(loss) and the interest component of the swaps are recorded as interest expense in the combined statements of operations.

	Merrill Lynch/ Bank of America	Merrill Lynch/ Bank of America	Merrill Lynch/ Bank of America
Notional amount	\$ 10,790,000	\$ 10,790,000	\$ 20,900,000
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. These investments are recorded in Other Assets on the combined balance sheets. For partnerships that make routine cash distributions, which UPHS has determined are central to its operations and mission, the equity share of income/(loss) is recorded in Other Revenue. Those significant investments are summarized below. All other equity income/(loss) from partnerships are recorded as a component of Investment Income, net.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

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

Excess of Revenues Over Expenses

The combined statements of operations include excess of revenue over expenses. Changes in net assets without donor restriction which are excluded from excess of revenue over expenses, consistent with 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.

New Accounting Pronouncements

In February 2016, the FASB issued a standard on Leases. This standard requires lessees to recognize assets and liabilities for the rights and obligations created by leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily depends on its classification as a finance or operating lease. UPHS adopted this standard for fiscal year 2020 on a modified retrospective basis, the impact of which is noted in the accompanying Leases footnote.

In November 2016, the FASB issued a standard on Restricted Cash. This standard requires the Combined Statements of Cash Flows explain the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents during a fiscal year. It is also required that this total be reconciled to the amounts reported on the Combined Balance Sheets and that the nature of the restrictions be disclosed. UPHS adopted this standard for fiscal year 2020 on a retrospective basis.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

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 32% and 12%, respectively, of Health System's hospital Net patient service revenue for the year ended 2021, and 32% and 12%, respectively, of the Health System's Net patient service revenue, for the year ended 2020. 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.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

2. Significant Accounting Policies (continued)

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 \$70,324,000 and \$18,952,000 to net patient service revenue in 2021 and 2020, respectively, as a result of final settlements and the revision or removal of reserves previously estimated that were no longer necessary.

Self-Pay and Other Adjustments to Revenues

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 \$51,738,000 in fiscal year 2021 and \$23,018,000 in fiscal year 2020 from the Pennsylvania Medicaid Modernization program.

Third Party Agreements

During 2017, UPHS and Independence Blue Cross (IBC) reached an agreement on terms of a new five-year agreement and continuing unless terminated by the parties. Payments made for inpatient services provided to IBC traditional and managed care subscribers are effected on a per case rate basis for most services. Payment for outpatient services is principally based upon negotiated fee schedules. Hospital and physician rates also provide for annual inflationary increases. In addition, incentives are paid for high performance with regard to clinical outcomes and patient quality. 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 1st, 2020 and continues through June 30, 2021 or until a new agreement is reached.

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

2. Significant Accounting Policies (continued)

Endowments

The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Rather, the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act) governs the investment, use and management of the UPHS' endowment funds. The Pennsylvania Act allows a non-profit to elect to spend between 2% and 7% (increased to 10% for fiscal years 2020 through 2022) of the endowment market value, determined at least annually and averaged over a period of three or more preceding years.

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

UPHS follows the University's endowment spending policy. In accordance with the Pennsylvania Act, the University has elected to adopt and follow an investment policy seeking a total return for the investments held by the AIF, whether the return is derived from appreciation of capital or earnings and distributions with respect to capital or both. The endowment spending policy which the Board of Trustees has elected to govern the expenditure of funds invested in the AIF is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. For Fiscal Year 2021, the spending rule target payout was based on the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior fiscal year-end fair value of the AIF, lagged one year, multiplied by 7.0% target spending rate for all funds.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

3. Assets Whose Use Is Limited

Assets whose use is limited at June 30, 2021 and 2020 are set forth in the following table (in thousands):

	<u>2021</u>	<u>2020</u>
Held by trustees		
Short term investments		
Debt service	\$ 13,799	\$ 5,945
Capital project fund	7,095	7,095
Other	2,365	5,798
Marketable equity securities		
Other retirement programs	126,567	90,881
Other	35,231	28,586
Other	<u>1,201</u>	<u>723</u>
Total held by trustees	<u>186,258</u>	<u>139,028</u>
RRG/Captive		
Short term investments	224,285	194,410
Marketable debt securities	38,281	35,896
Marketable equity securities	<u>21,299</u>	<u>13,316</u>
Total RRG Captive	<u>283,865</u>	<u>243,622</u>
Designated		
Short term investments	4,804	10,720
Associated Investment Funds (A.I.F)	3,760,356	2,668,146
Marketable debt securities	132,621	110,936
Marketable equity securities	594	9,863
Other	<u>47,786</u>	<u>34,206</u>
Total designated	<u>3,946,161</u>	<u>2,833,871</u>
Donor-restricted		
Short term investments	35,344	26,971
Marketable debt securities	1,312	1,318
Marketable equity securities	150,206	122,310
Associated Investment Funds (A.I.F)	672,664	495,517
Contribution receivable, net	7,691	11,104
Other	<u>112</u>	<u>556</u>
Total donor-restricted	<u>867,329</u>	<u>657,776</u>
Total assets whose use is limited	<u>\$ 5,283,613</u>	<u>\$ 3,874,297</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

4. Investments

Investments at June 30, 2021 and 2020 are set forth in the following table (in thousands):

	<u>2021</u>	<u>2020</u>
US Treasury obligations	\$ 539,342	\$ 538,870
Associated Investment Funds (A.I.F)	268,850	190,988
Marketable debt securities	150,327	30,718
Other	333	212
	<u>\$ 958,852</u>	<u>\$ 760,788</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, 2021 and 2020 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 2021
Assets					
Short term investments	\$ 286,452	\$ -	\$ -	\$ -	\$ 286,452
Equity investments					
US equities	205,462	-	-	-	205,462
International equities	836	-	-	-	836
Debt investments					
US Treasuries and Agencies	515,596	23,746	-	-	539,342
Corporate bonds	87,678	235,951	-	-	323,629
Split-interest agreements	-	-	127,599	-	127,599
Natural resources	113	-	-	-	113
Private equity	-	-	-	49,471	49,471
	<u>\$ 1,096,137</u>	<u>\$ 259,697</u>	<u>\$ 127,599</u>	<u>\$ 49,471</u>	<u>\$ 1,532,904</u>
Associated Investment Fund (A.I.F.)					4,701,870
Total: Assets					<u>\$ 6,234,774</u>

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2020
Assets					
Short term investments	\$ 251,799	\$ -	\$ -	\$ -	\$ 251,799
Equity investments					
US equities	161,848	-	-	-	161,848
International equities	659	-	-	-	659
Debt investments					
US Treasuries and Agencies	586,806	19,999	-	-	606,805
Corporate bonds	1,449	110,000	-	-	111,449
Split-interest agreements	-	-	102,239	-	102,239
Absolute return	-	-	-	1,138	1,138
Natural resources	179	-	-	-	179
Private equity	-	-	-	33,214	33,214
	<u>\$ 1,002,740</u>	<u>\$ 129,999</u>	<u>\$ 102,239</u>	<u>\$ 34,352</u>	<u>\$ 1,269,330</u>
Associated Investment Fund (A.I.F.)					3,354,651
Total: Assets					<u>\$ 4,623,981</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

5. Fair Value Measurement (continued)

Changes to the reported amounts of split interest agreements, measured at fair value using unobservable (Level 3) inputs as of June 30, 2021 and 2020 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, 2021 and June 30, 2020, UPHS held 23.67% and 23.55% of the total investment fund, respectively. The asset classification for the A.I.F. is as follows (in thousands):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2021
Assets					
Short term investments	\$ 863,671	\$ -	\$ -	\$ -	\$ 863,671
Equity investments					
US equities	519,436	-	-	1,630,951	2,150,387
International equities	455,230	-	-	1,240,442	1,695,672
Emerging market equities	178,608	-	-	1,524,253	1,702,861
Debt securities					
US Treasuries	504,691	-	-	-	504,691
Sovereign bonds	-	32	-	-	32
High yield	-	-	-	-	-
Absolute return	-	-	-	4,423,435	4,423,435
Real estate	-	-	-	1,042,564	1,042,564
Private equity	-	-	-	6,946,260	6,946,260
Natural resources	175,645	-	-	747,025	922,670
Derivative instruments	-	667	-	-	667
Total: Assets	<u>\$ 2,697,281</u>	<u>\$ 699</u>	<u>\$ -</u>	<u>\$ 17,554,930</u>	<u>\$ 20,252,910</u>
Less: Liabilities	<u>388,440</u>	<u>1,056</u>	<u>781</u>	<u>-</u>	<u>390,277</u>
	<u>\$ 2,308,841</u>	<u>\$ (357)</u>	<u>\$ (781)</u>	<u>\$ 17,554,930</u>	<u>\$ 19,862,633</u>
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at NAV	Total 2020
Assets					
Short term investments	\$ 307,376	\$ -	\$ -	\$ -	\$ 307,376
Equity investments					
US equities	414,315	-	-	1,169,420	1,583,735
International equities	141,280	-	-	1,111,548	1,252,828
Emerging market equities	175,705	-	-	1,087,617	1,263,322
Debt securities					
US Treasuries	669,582	-	-	-	669,582
Corporate bonds	-	4,408	-	-	4,408
High yield	-	-	-	119	119
Absolute return	-	-	-	3,892,714	3,892,714
Real estate	-	-	-	978,372	978,372
Private equity	-	-	-	4,077,770	4,077,770
Natural resources	85,896	-	-	445,171	531,067
Derivative instruments	-	17,132	-	-	17,132
Total: Assets	<u>1,794,154</u>	<u>21,540</u>	<u>-</u>	<u>12,762,731</u>	<u>14,578,425</u>
Less: Liabilities	<u>329,955</u>	<u>2,221</u>	<u>-</u>	<u>-</u>	<u>332,176</u>
	<u>\$ 1,464,199</u>	<u>\$ 19,319</u>	<u>\$ -</u>	<u>\$ 12,762,731</u>	<u>\$ 14,246,249</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

6. Other Assets

Other assets at June 30, 2021 and 2020 are set forth in the following table (in thousands):

	<u>2021</u>	<u>2020</u>
Goodwill, net	\$ 24,888	\$ 24,888
Certificate of need	22,000	22,000
Other receivables	129,828	128,058
Malpractice receivable	113,343	119,255
Inventory	100,575	93,995
Prepaid expenses	120,252	109,073
Interests in non-consolidated subsidiaries	104,015	101,252
Right-of-use assets	314,949	288,645
Other	40,657	35,900
	<u>970,507</u>	<u>923,066</u>
Less: Current portion	<u>(348,560)</u>	<u>(322,588)</u>
	<u>\$ 621,947</u>	<u>\$ 600,478</u>

In March of 2021, UPHS entered a \$10,000,000 prepaid lease for the new “Hospital of the University of Pennsylvania – Cedar Avenue”, previously the site of Mercy Catholic Medical Center. The prepaid lease is included in Right-to-use assets on the balance sheet.

Amortization expense charged to operations totaled \$714,000 and \$714,000 in 2021 and 2020, respectively.

7. Property, Plant, Equipment and Accumulated Depreciation

Property, plant, equipment (PPE) and accumulated depreciation at June 30, 2021 and 2020 are set forth in the following table (in thousands):

	<u>2021</u>	<u>2020</u>
Land and improvements	\$ 202,726	\$ 187,846
Building and improvements	4,690,208	4,482,637
Fixed and movable equipment	2,445,541	2,312,095
	<u>7,338,475</u>	<u>6,982,578</u>
Accumulated depreciation	<u>(3,458,599)</u>	<u>(3,265,544)</u>
	3,879,876	3,717,034
Construction in progress	1,820,207	1,652,375
	<u>\$ 5,700,083</u>	<u>\$ 5,369,409</u>

Depreciation expense charged to operations totaled \$332,996,000 and \$322,928,000 in 2021 and 2020, respectively. Capitalized Interest recorded was \$54,772,000 and \$49,870,000 in 2021 and 2020, respectively.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

8. Long-Term Debt

A summary of debt as of June 30, 2021 and 2020 are set forth as follows (in thousands):

		Effective Interest Rate at	2021	2020
	Final Maturity	June 30, 2021		
<u>Fixed rate debt obligations:</u>				
Lancaster County Hospital Authority (LCHA)				
Series A of 2016 revenue bonds	August 15, 2042	1.45% - 3.52%	\$ 152,150	\$ 156,455
Series B of 2016 revenue bonds	August 15, 2046	1.43% - 3.58%	128,050	128,050
Pennsylvania Higher Education Facilities Authority (PHEFA)				
Series A of 2021 revenue bonds	August 15, 2044	1.61% - 2.11%	79,810	-
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	1.10% - 3.08%	128,125	128,435
Series A of 2015 revenue bonds	August 15, 2045	1.80% - 4.00%	235,055	257,495
Series A of 2012 revenue bonds	August 15, 2042	2.50% - 4.08%	132,140	134,650
Series A of 2009 revenue bonds	August 15, 2021	4.67%	1,545	12,115
New Jersey Health Care Facilities Financing Authority (NJHCFFA)				
Princeton Healthcare System Series A of 2016	July 1, 2039	1.86% - 3.875%	168,400	173,660
University of Pennsylvania Health System 2017 Taxable Bond	August 15, 2047	4.01%	200,000	200,000
Lancaster General Hospital 2015 Taxable Note	August 15, 2022	2.66%	65,193	67,798
Lines of credit, outstanding balance	Various	Various	-	-
Mortgages, Loans and other	Various	Various	110,429	160,914
<u>Variable rate debt obligations:</u>				
PHEFA Series A of 2014 revenue bonds	August 15, 2044	n/a	-	100,000
PHEFA Series A of 2008 revenue bonds	January 1, 2038	0.02%	69,995	69,995
NJHCFFA Princeton Healthcare System Series B of 2016	July 1, 2045	0.61%	65,000	65,000
NJHCFFA Princeton Healthcare System Series C of 2016	July 1, 2045	0.62%	20,000	20,000
Total outstanding bonds payable			2,490,762	2,609,437
Unamortized original issue premiums, discounts and debt costs, net			187,411	181,480
			2,678,173	2,790,917
Current portion of debt obligations			(60,335)	(98,663)
			<u>\$ 2,617,838</u>	<u>\$ 2,692,254</u>

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

8. Long-Term Debt (continued)

UPHS Series A of 2021 were issued on April 13, 2021 for \$79,810,000. The entire amount of the proceeds, \$100,000,000 were immediately used to pay off the PHEFA Series A of 2014 revenue bonds. The redeemed bonds are no longer reported as a liability. In addition, the UPHS Series B of 2021 will be issued on May 18, 2022 for \$109,735,000. The entire amount of \$122,275,000, which is a forward delivery will be used to defease the UPHS Series A of 2012 revenue bonds.

UPHS Series A of 2019 were issued on December 5, 2019 for \$534,870,000. Funds totaling \$484.7 million were used to reimburse UPHS for expenses already incurred in relation to various projects and capital expenditures. The remaining proceeds of \$112.2 million, including the issued premium, were deposited in a capital project fund held by trustee to be drawn upon for future capital expenditures. This portion of the financing is reflected as a noncash transaction in the Statement of Cash Flows. Future reimbursements from the capital project fund will be accounted for as a cash inflow from investing activities in the Statement of Cash Flows. The bonds have stated interest rates that range between 3.00% and 5.00%.

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

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

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 2021 and 2020 was met by UPHS. Additionally, UPHS has pledged its gross revenues to collateralize its obligation under the MTI.

UPHS has a mortgage payable that is collateralized by four office buildings of approximately \$11,164,000.

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8. Long-Term Debt (continued)

Upon adoption of the new accounting standard for leases in fiscal year 2020, UPHS derecognized a build-to-suit lease liability of \$75,094,000 from debt obligations with a corresponding asset of \$67,307,000 from PPE, resulting in a gain of \$8,022,000 recorded in Contributions and other support. The remainder obligation under the lease agreement is accounted for as an operating lease under the new leasing guidance.

UPHS has \$100,000,000 line-of-credit, with a maturity on April 13, 2022, to supplement liquidity and issue letters of credit to cover balances due on construction projects and reinsurance agreements. There was no outstanding balance as of June 30, 2021 and June 30, 2020. Letters of credit issued under the line were \$3,065,000 and \$8,843,000 at June 30, 2021 and 2020, respectively, and are included in contingencies and commitments.

The Pennsylvania Department of Community and Economic Development (DCED) administered the Hospital Emergency Loan Program (HELP) to provide critical working capital bridge financing to hospitals within the commonwealth that are adversely impacted by the coronavirus (COVID-19) outbreak. UPHS applied for the program and was awarded a \$50,000,000 loan on April 30, 2020. The loan is secured by an assignment of the Federal COVID-19 Relief Funds and must be repaid by September 25, 2020.

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					
2022	\$ 28,615	\$ 13,075	\$ 5,525	\$ 2,640	\$ 49,855
2023	27,475	16,320	5,800	62,553	112,148
2024	34,220	13,740	6,090	-	54,050
2025	45,765	5,215	6,395	-	57,375
2026	48,070	5,475	6,715	-	60,260
Thereafter	1,397,395	226,375	222,875	200,000	2,046,645
Total principal	1,581,540	280,200	253,400	265,193	2,380,333
Unamortized original issue premiums, discounts, and debt costs	145,899	28,225	14,508	(1,221)	187,411
Total debt	<u>\$ 1,727,439</u>	<u>\$ 308,425</u>	<u>\$ 267,908</u>	<u>\$ 263,972</u>	<u>\$ 2,567,744</u>

	<u>Mortgages Notes and Other</u>
Fiscal Year	
2022	\$ 10,480
2023	4,494
2024	4,691
2025	4,887
2026	4,193
Thereafter	81,684
Total mortgages, notes and other	<u>\$ 110,429</u>

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

UPHS transferred \$181,414,000 and \$207,085,000 in 2021 and 2020, respectively, to further the research and educational activities of the PSOM. In addition, PSOM support totaling \$21,583,000 and \$19,618,000, which represents academic operating support to the clinical departments of the PSOM, has been recognized as operating expenses in 2021 and 2020, 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 \$61,008,000 in 2021 and \$6,581,000 in 2020 to the University. The amounts outstanding at June 30, 2021 and 2020 represented normal current inter-entity activity.

10. Net Assets

The major components of net assets at June 30, 2021 and 2020 are as follows (in thousands):

	2021		
	Without Donor Restriction	With Donor Restriction	Total
General operating	\$ 3,143,924	\$ 70,647	\$ 3,214,571
Capital	-	23,549	23,549
Endowment			
Quasi	4,073,852	-	4,073,852
Donor restricted	-	795,515	795,515
	<u>\$ 7,217,776</u>	<u>\$ 889,711</u>	<u>\$ 8,107,487</u>
	2020		
	Without Donor Restriction	With Donor Restriction	Total
General operating	\$ 2,195,698	\$ 59,427	\$ 2,255,125
Capital	-	19,809	19,809
Endowment			
Quasi	2,902,531	-	2,902,531
Donor restricted	-	593,796	593,796
	<u>\$ 5,098,229</u>	<u>\$ 673,032</u>	<u>\$ 5,771,261</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
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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>2021</u>	<u>2020</u>
Specific purpose (i.e., departmental room funds)	\$ 94,196	\$ 79,236
Endowment - held by others	127,599	102,239
Endowment - fair value adjustments	552,827	381,959
Endowment - original cost basis	<u>115,089</u>	<u>109,598</u>
	<u>\$ 889,711</u>	<u>\$ 673,032</u>

Changes to the reported amounts of the UPHS' endowments and split interests as of June 30, 2021 and June 30, 2020 are as follows (in thousands):

	<u>2021</u>		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowments and split interests at June 30, 2020	<u>\$ 2,902,531</u>	<u>\$ 593,796</u>	<u>\$ 3,496,327</u>
Investment return	1,170,606	224,013	1,394,619
New gifts	862	5,491	6,353
Allocation of AIF assets for expenditure	(186,815)	-	(186,815)
Other investment allocations	(1,536)	-	(1,536)
Transfers to create Board designated funds	159,558	861	160,419
Other transfers	6,235	(6,235)	-
Released from restriction	22,411	(22,411)	-
Endowments and split interests at June 30, 2021	<u>\$ 4,073,852</u>	<u>\$ 795,515</u>	<u>\$ 4,869,367</u>

	<u>2020</u>		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowments and split interests at June 30, 2019	<u>\$ 2,914,257</u>	<u>\$ 602,486</u>	<u>\$ 3,516,743</u>
Investment return	(12,727)	14,847	2,120
New gifts	1,078	2,384	3,462
Allocation of AIF assets for expenditure	(148,818)	-	(148,818)
Other investment allocations	(2,148)	-	(2,148)
Transfers to create Board designated funds	126,475	955	127,430
Other transfers	1,147	(3,609)	(2,462)
Released from restriction	23,267	(23,267)	-
Endowments and split interests at June 30, 2020	<u>\$ 2,902,531</u>	<u>\$ 593,796</u>	<u>\$ 3,496,327</u>

At June 30, 2021 and 2020, 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, 2021 and 2020

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 \$100,430,000 and \$89,397,000 in 2021 and 2020, 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.

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.

On June 18, 2020, Penn Medicine selected Mass Mutual to assume the pension liability of approximately 2,325 retired pension participants in the UPHS plan, which is considered a buy-out transaction. The total monthly benefit amount \$515,000 which has become the responsibility of Mass Mutual effective July 1, 2020. A premium of \$78,879,000 was paid to Mass Mutual, from the plan assets on June 25, 2020. The amount of the payment during the year did not exceed the sum of the fiscal year 2020 service cost plus interest cost for the UPHS plan. Therefore, settlement accounting was not required for fiscal year 2020. The plan is continuing to make pension payment to the affected group until Mass Mutual can administratively take over the process. Mass Mutual will reimburse the plan once the transaction has occurred.

On November 17, 2020, Penn Medicine selected Western & Southern to assume the pension liability of approximately 595 retired pension participants in the LGH plan, which is considered a buy-out transaction. The total monthly benefit amount was \$103,000, which has become the responsibility of Western & Southern effective December 1, 2020. The benefits paid includes the \$15,955,632 premium payment paid to Western & Southern from plan assets. The associated accounting liability was estimated during the final pricing discussions to be \$16.3 million. No settlement charge was recognized during the fiscal year ending June 30, 2021 as the premium payment did not exceed the sum of the service cost and interest cost.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

12. Pension and Postretirement Benefit Costs (continued)

On November 17, 2020, Penn Medicine selected Western & Southern to assume the pension liability of approximately 355 retired pension participants in the Princeton plan, which is considered a buy-out transaction. The total monthly benefit amount was \$64,000, which has become the responsibility of Western & Southern effective December 1, 2020. The benefits paid includes the \$9,857,954 premium payment paid to Western & Southern from plan assets. The associated accounting liability was estimated during the final pricing discussions to be \$10.0 million. The buy-out transaction triggered settlement accounting for the fiscal year ending June 30, 2021 as the premium payment price is greater than the sum of the service cost and interest cost. Due to the triggering of settlement accounting, the plan was remeasured at December 1, 2020 and the plan incurred a settlement charge of \$935,855 based on the buy-out premium of \$9,857,954 and regular operation lumps sums of \$2,235,972 through November 2020. An additional settlement charge of \$64,280 was determined as of June 30, 2021 based on regular operation lump sums of \$1,271,931 paid after November 2020.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

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	
	2021	2020	2021	2020	2021	2020
Change in Benefit Obligation						
Benefit obligation at end of prior year	\$ 3,822,891	\$ 3,473,177	\$ 143,551	\$ 148,922	\$ 3,966,442	\$ 3,622,099
Service costs	76,327	73,828	2,691	2,531	79,018	76,359
Interest costs	113,604	126,554	3,905	5,197	117,509	131,751
Retiree drug subsidy	N/A	N/A	584	54	584	54
Plan participants' contributions	N/A	N/A	726	673	726	673
Plan Settlements	(13,366)	-	-	-	(13,366)	-
Net actuarial (gain)/loss	(1,405)	322,616	(2,005)	(5,108)	(3,410)	317,508
Benefits paid	(108,614)	(173,284)	(8,701)	(8,718)	(117,315)	(182,002)
Benefit obligation at end of year	<u>\$ 3,889,437</u>	<u>\$ 3,822,891</u>	<u>\$ 140,751</u>	<u>\$ 143,551</u>	<u>\$ 4,030,188</u>	<u>\$ 3,966,442</u>
Change in Plan Assets						
Fair value of plan assets at beginning of year	\$ 2,506,040	\$ 2,439,939	\$ -	\$ -	\$ 2,506,040	\$ 2,439,939
Actual return on assets	653,449	115,905	-	-	653,449	115,905
Company contributions	143,514	123,480	7,391	7,992	150,905	131,472
Retiree drug subsidy	-	-	584	54	584	54
Plan Settlements	(13,366)	-	-	-	(13,366)	-
Plan participants' contributions	-	-	726	673	726	673
Benefits paid	(108,614)	(173,284)	(8,701)	(8,719)	(117,315)	(182,003)
Fair value of plan assets at end of year	<u>\$ 3,181,023</u>	<u>\$ 2,506,040</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,181,023</u>	<u>\$ 2,506,040</u>
Funded Status						
Projected benefit obligation/accumulated postretirement benefit obligation	\$ (3,889,437)	\$ (3,822,891)	\$ (140,751)	\$ (143,551)	\$ (4,030,188)	\$ (3,966,442)
Plan assets at fair value	3,181,023	2,506,040	-	-	3,181,023	2,506,040
Funded status at end of year	<u>\$ (708,414)</u>	<u>\$ (1,316,851)</u>	<u>\$ (140,751)</u>	<u>\$ (143,551)</u>	<u>\$(849,165)</u>	<u>\$(1,460,402)</u>
Other retirement programs					(126,567)	(90,881)
Total accrued retirement benefits					(975,732)	(1,551,283)
Less: current portion included in Accrued expenses					8,659	8,302
Pension and post-retirement benefit liability					<u>\$ (967,073)</u>	<u>\$ (1,542,981)</u>

The Accumulated Benefit Obligation for the Pension Benefits was \$3,549,184,000 and \$3,478,830,000 at June 30, 2021 and 2020, respectively.

For the year ended June 30, 2021, the net actuarial gain in the Benefit Obligation for the Pension Benefits was primarily attributable to the change in mortality assumptions and for the year ended June 30, 2020, the net actuarial loss in Benefit Obligation was primarily attributable to change in the discount rate.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

12. Pension and Postretirement Benefit Costs (continued)

Net Periodic Benefit Cost

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

	June 30					
	Pension Benefits		Other Postretirement Benefits		Total	
	2021	2020	2021	2020	2021	2020
Service cost	\$ 76,327	\$ 73,828	\$ 2,691	\$ 2,531	\$ 79,018	\$ 76,359
Interest cost	113,604	126,554	3,905	5,197	117,509	131,751
Expected return on plan assets	(157,313)	(169,945)	-	-	(157,313)	(169,945)
Settlement/Curtailment	1,000	-	-	-	1,000	-
Amortization of						
Net prior service costs	-	-	(387)	(387)	(387)	(387)
Net losses	75,637	48,713	225	250	75,862	48,963
Net periodic benefit cost	<u>\$ 109,255</u>	<u>\$ 79,150</u>	<u>\$ 6,434</u>	<u>\$ 7,591</u>	<u>\$ 115,689</u>	<u>\$ 86,741</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	
	2021	2020	2021	2020	2021	2020
Net assets without donor restriction						
Net actuarial loss	\$ (614,054)	\$ (1,188,234)	\$ 1,052	\$ (1,177)	\$ (613,002)	\$ (1,189,411)
Net prior service costs	-	-	1,985	2,372	1,985	2,372
Accumulated net assets without donor restriction	(614,054)	(1,188,234)	3,037	1,195	(611,017)	(1,187,039)
Adjustment to net assets without donor restriction	\$ (574,180)	\$ 327,943	\$ (1,842)	\$ (4,971)	\$ (576,022)	\$ 322,972

University of Pennsylvania Health System
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June 30, 2021 and 2020

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	
	2021	2020	2021	2020
Weighted-average assumptions used to determine benefit obligation at year end				
Discount rate	3.01 %	3.02 %	2.89 %	2.80 %
Rate of compensation increase	3.21	3.23	3.21	3.23
Cash balance interest credit rate	4.00/6.00	4.00/6.00	0.00	0.00
Weighted-average assumptions for net periodic benefit cost				
Discount rate	2.36 - 3.05 %	3.70 %	2.80 %	3.59 %
Expected long-term return on plan assets	4.5 - 8.0	7.39	N/A	N/A
Rate of compensation increase	3.23	4.00	3.23	4.00
Cash balance interest credit rate	4.00/6.00	4.00/6.00	0.00	0.00
Assumed health care trend rates				
Health care cost trend rate assumed for next fiscal year (pre-65/post-65)			5.45%/5.44%	5.70%/6.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.00%	4.50%
Ultimate trend rate is reached in fiscal year			2047	2038
Medicare Part B trend rate assumed for next fiscal year			5.00%	5.40%
Ultimate trend rate			4.00%	4.50%
Ultimate trend rate is reached in fiscal year			2047	2038
Assumed prescription drug trend rates at June 30				
Health care cost trend rate assumed for next fiscal year			6.00%	6.80%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.00%	4.50%
Ultimate trend rate is reached in fiscal year			2047	2038

Expected Contributions

UPHS expects to contribute \$33,902,000 and \$8,728,000 for pension benefits and other postretirement benefits, respectively, during the fiscal year ending June 30, 2022.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

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, 2022	122,783	8,803	(75)
June 30, 2023	127,386	8,917	(77)
June 30, 2024	135,843	9,276	(79)
June 30, 2025	143,933	9,369	(81)
June 30, 2026	152,275	9,372	(84)
June 30, 2027 to June 30, 2031	872,092	46,313	(438)

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, 2021 and 2020

12. Pension and Postretirement Benefit Costs (continued)

A summary of plan assets, measured at fair value, as of June 30, 2021 and 2020 is as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments at NAV</u>	<u>2021</u>
Assets					
Short-term investments	\$ 142,064	\$ -	\$ -	\$ -	\$ 142,064
Equity investments					
US equities	282,346	564	-	215,469	498,379
International equities	156,448	-	-	226,194	382,642
Emerging markets equities	-	-	-	212,243	212,243
Debt investments					
US Treasuries and Agencies	171,987	7,923	-	-	179,910
Corporate bonds	92,597	125,819	-	230,796	449,212
Absolute return	-	-	-	738,777	738,777
Real estate	-	-	-	81,517	81,517
Private equity	438	-	-	382,274	382,712
Natural resources	83,194	-	-	30,502	113,696
	<u>\$ 929,074</u>	<u>\$ 134,306</u>	<u>\$ -</u>	<u>\$ 2,117,772</u>	<u>\$ 3,181,152</u>
Liabilities					
Derivative instruments					
Options	\$ -	\$ 129	\$ -	\$ -	\$ 129
	<u>\$ -</u>	<u>\$ 129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments at NAV</u>	<u>2020</u>
Assets					
Short-term investments	\$ 31,433	\$ -	\$ -	\$ -	\$ 31,433
Equity investments					
US equities	195,396	949	-	174,264	370,609
International equities	127,807	-	-	199,993	327,800
Emerging markets equities	123	-	-	141,653	141,776
Debt investments					
US Treasuries	156,876	10,159	-	-	167,035
Corporate bonds	95,072	114,846	-	202,682	412,600
Absolute return	-	-	-	613,851	613,851
Real estate	-	-	-	70,333	70,333
Private equity	2,016	-	-	261,780	263,796
Natural resources	46,909	-	-	60,232	107,141
	<u>\$ 655,632</u>	<u>\$ 125,954</u>	<u>\$ -</u>	<u>\$ 1,724,788</u>	<u>\$ 2,506,374</u>
Liabilities					
Derivative instruments					
Options	\$ -	\$ 334	\$ -	\$ -	\$ 334
	<u>\$ -</u>	<u>\$ 334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334</u>

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

12. Pension and Postretirement Benefit Costs (continued)

As of June 30, 2021, the plan has unfunded commitments to limited partnerships totaling \$317,897,000, 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, 2021 and 2020 there were no transfers between Level 1 and 2.

Allocation of Plan Assets:

	Pension Benefits		
	Target	2021	2020
Short-term investments	0.0 %	4.5 %	1.1 %
Equity investments			
US equities	12.8 %	15.7 %	14.8 %
International equities	12.5 %	12.0 %	13.1 %
Emerging markets equities	6.3 %	6.7 %	5.7 %
Debt investments			
US Treasuries	24.4 %	5.7 %	6.7 %
Corporate bonds	0.1 %	14.1 %	16.5 %
Absolute return	24.2 %	23.1 %	24.5 %
Real estate	3.5 %	2.6 %	2.8 %
Private equity	12.7 %	12.0 %	10.5 %
Natural resources	3.5 %	3.6 %	4.3 %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

13. Net Patient Revenue by Payer

	2021	2020
Medicare (including Managed Medicare)	32 %	32 %
Medicaid (including Managed Medicaid)	12	12
Managed care	35	36
Blue cross	16	15
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, 2021 and 2020

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, 2021 and 2020, respectively, is as follows:

	<u>2021</u>	<u>2020</u>
Medicare	15 %	16 %
Medicaid	2	3
Managed care (including Managed Medicare and Medicaid)	50	51
Blue cross	12	11
Commercial	15	12
Self pay	6	7
	<u>100 %</u>	<u>100 %</u>

15. Lease Commitments

UPHS leases real estate and equipment under operating leases expiring through May 2040. 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 \$317,876,000 and \$288,645,000 and Lease Liabilities recorded in Accrued expenses and other liabilities were \$320,693,000 and \$296,378,000, as of June 30, 2021 and 2020, respectively. At June 30, 2021, the weighted average remaining lease term was 10.6 years and the weighted average discount rate was 2.8%. Rental expense is included in Supplies and other expenses on the Combined Statements of Activities. Rental expense totaled \$94,605,000 and \$95,420,000, while amortization of Right-of-use asset was \$10,240,000 and \$43,904,000 for the year ended June 30, 2021 and 2020, respectively.

A summary of future minimum payments under operating leases at June 30, 2021, is as follows (in thousands):

2022	58,743
2023	47,531
2024	45,244
2025	44,055
2026	31,848
Thereafter	<u>166,831</u>
Total lease payments	394,253
Less: Imputed interest	<u>(73,560)</u>
Total future lease payments	<u>\$ 320,693</u>

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

16. Medical Professional Liability Claims

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

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

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

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

UPHS accrues for estimated retained risks arising from both asserted and unasserted medical professional liability claims. UPHS has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of these claims. The estimate of the gross liability and corresponding receivable for unasserted claims arising from unreported incidents is based on analysis of historical claims data by an independent actuary, which is recorded utilizing a 2.25% to 3.50% discount rate at June 30, 2021 and June 30, 2020. Total liability under this program is approximately \$765,755,000 and \$750,633,000 with a corresponding receivable of \$113,343,000 and \$119,255,000 at June 30, 2021 and 2020, 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 \$27,335,000 and \$29,793,000 of costs were incurred during 2021 and 2020, 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 criteria to qualify for its charity care policy. UPHS pursues collection of these amounts, however certain

University of Pennsylvania Health System

Notes to Combined Financial Statements

June 30, 2021 and 2020

amounts are deemed to be uncollectible. Implicit price concessions, which reduce net patient service revenue was \$166,591,000 and \$169,110,000 for years ending June 30, 2021 and 2020, 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 \$293,796,000 and \$267,630,000 in 2021 and 2020, respectively. In addition to providing direct patient charity care and in furtherance of its exempt purpose to benefit the community, UPHS operates emergency rooms open to the public 24-hours per day, 7 days per week; maintains research facilities for the study of disease and injuries; provides facilities for teaching and training various medical personnel; facilitates the advancement of medical and surgical education; and provides various community services such as screenings for the detection of breast, colorectal and skin cancer, cancer support groups, a toll free number for cancer information, free immunization shots, training programs for the City Fire and Police Departments, health education classes, speeches, and regularly provides health related information to television and radio news programs and to reporters at newspapers and magazines.

18. Contingencies and Commitments

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

At June 30, 2021, construction contract commitments are estimated to total \$244,854,000.

UPHS maintains various unused letters of credit with expirations at various dates through fiscal year 2021 totaling \$11,986,000 and \$19,096,000 at June 30, 2021 and 2020, respectively, to cover balances due on construction projects and reinsurance agreements.

University of Pennsylvania Health System
Notes to Combined Financial Statements
June 30, 2021 and 2020

19. Liquidity and Availability

As of June 30, 2021, 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>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 1,173,485	\$ 1,501,854
Patient and third party payer receivables	819,116	726,081
Other receivables included in other current assets	243,171	247,313
Pledge payment available for operations	2,613	4,974
Designated investments and Investments	<u>2,890,685</u>	<u>2,374,902</u>
Total financial assets available within one year	<u>\$ 5,129,070</u>	<u>\$ 4,855,124</u>
Liquidity resources		
Bank lines of credit	<u>96,935</u>	<u>241,157</u>
Total financial assets and liquidity resources available within one year	<u>\$ 5,226,005</u>	<u>\$ 5,096,281</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, 2021 and 2020 is presented below (in thousands).

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 74,675	\$ 76,962
Net realized changes on investments	134,886	92,097
Changes in unrealized gain/(loss) on investments, other than debt	<u>998,556</u>	<u>(26,607)</u>
Investment income, net	<u>1,208,117</u>	<u>142,452</u>
Unrealized gain on debt investments	(11,334)	6,492
Net realized and unrealized gains / (losses) on restricted funds	212,664	(13,741)
Total investment return, net	<u>\$ 1,409,447</u>	<u>\$ 135,203</u>

21. Subsequent Events

UPHS has evaluated subsequent events through September 23, 2021, which is the date the combined financial statements were issued.

Supplementary Combining Information

University of Pennsylvania Health System
Combining Balance Sheet
June 30, 2021 (thousands of dollars)

	CPUP	CCA	HUP	Penn Presbyterian	TCCHS	Pennsylvania	LGH	PHCS	Wissahickon Hospice/ Homecare	Corporate	RRG/ Captive	Total
Assets												
Current												
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 182,987	\$ 97,148	\$ 7,977	\$ 885,373	\$ -	\$ 1,173,485
Due from (to) UPHS central treasury	348,236	29,984	1,324,884	63,069	(288,834)	94,402	-	-	60,919	(1,632,660)	-	-
Patient receivables, net	76,151	18,900	345,169	107,402	45,764	74,815	168,355	52,261	38,192	-	-	927,009
Third party payer receivables	-	-	2,694	1,158	259	1,339	-	-	-	-	-	5,450
Due from the University of Pennsylvania	-	-	-	-	-	-	-	-	-	24,233	-	24,233
Other current assets	20,096	3,048	112,705	38,785	17,676	28,260	59,980	16,454	7,355	44,201	-	348,560
Total current assets	444,483	51,932	1,785,452	210,414	(225,135)	198,816	411,322	165,863	114,443	(678,853)	-	2,478,737
Assets whose use is limited												
Held by trustee	126,567	-	7,185	-	-	-	8,436	5,525	-	38,545	-	186,258
RRG/Captive	-	-	-	-	-	-	59,581	-	-	-	224,284	283,865
Designated	-	-	947,140	-	-	96,511	1,555,742	-	-	1,346,768	-	3,946,161
Donor-restricted investments	-	-	186,310	203,973	24,707	368,246	50,348	30,555	1,152	2,038	-	867,329
	126,567	-	1,140,635	203,973	24,707	464,757	1,674,107	36,080	1,152	1,387,351	224,284	5,283,613
Investments												
Property and equipment, net	16,424	37,147	2,618,136	375,386	433,117	228,875	832,990	384,574	5,255	768,179	-	5,700,083
Other assets	64,760	19,842	43,758	126,660	40,962	737	68,823	62,459	833	193,113	-	621,947
Total assets	\$ 652,234	\$ 108,921	\$ 5,587,981	\$ 916,433	\$ 273,651	\$ 893,326	\$ 3,137,569	\$ 917,948	\$ 121,753	\$ 2,209,132	\$ 224,284	\$ 15,043,232
Liabilities and Net Assets												
Current												
Accounts payable	\$ 14	\$ -	\$ -	\$ 140	\$ 1,688	\$ 446	\$ 42,560	\$ 17,045	\$ 524	\$ 246,454	\$ -	\$ 308,871
Accrued expenses	126,947	44,252	192,591	39,514	25,486	31,595	135,939	34,200	21,167	404,417	(1,258)	1,054,850
Current portion of long-term debt	-	-	24,102	9,080	-	3,998	7,941	5,894	-	9,320	-	60,335
Due to the University of Pennsylvania	-	-	-	-	-	-	-	-	-	-	-	-
Third party payer settlements	-	-	237,592	95,542	36,931	45,271	98,304	39,592	-	79	-	553,311
Total current liabilities	126,961	44,252	454,285	144,276	64,105	81,310	284,744	96,731	21,691	660,270	(1,258)	1,977,367
Long-term debt, net of current portion												
Due to the University of Pennsylvania	-	-	1,281,277	95,351	61,081	95,979	363,002	263,721	-	457,427	-	2,617,838
Third party payer settlements, net of current portion	(5)	-	31,212	10,837	5,316	14,936	-	11,485	2,164	3,168	-	79,113
Other liabilities	63,300	16,906	42,749	91,564	34,077	83	109,204	50,360	(179)	633,551	207,739	1,249,354
Pension and postretirement benefit liability	126,567	-	-	-	-	-	195,580	12,114	-	632,812	-	967,073
Total liabilities	316,823	61,158	1,809,523	342,028	164,579	192,308	952,530	434,411	23,676	2,432,228	206,481	6,935,745
Net assets												
Net assets without donor restriction	335,411	47,445	3,589,855	371,263	68,497	332,767	2,134,537	448,688	96,474	(224,964)	17,803	7,217,776
Net assets with donor restrictions	-	318	188,603	203,142	40,575	368,251	50,502	34,849	1,603	1,868	-	889,711
Total net assets	335,411	47,763	3,778,458	574,405	109,072	701,018	2,185,039	483,537	98,077	(223,096)	17,803	8,107,487
Total liabilities and net assets	\$ 652,234	\$ 108,921	\$ 5,587,981	\$ 916,433	\$ 273,651	\$ 893,326	\$ 3,137,569	\$ 917,948	\$ 121,753	\$ 2,209,132	\$ 224,284	\$ 15,043,232

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, 2020 (thousands of dollars)

	CPUP	CCA	HUP	Penn Presbyterian	TCCHS	Pennsylvania	LGH	PHCS	Wissahickon Hospice/ Homecare	Corporate	RRG/ Captive	Total
Assets												
Current												
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 296,012	\$ 111,702	\$ 19,599	\$ 1,074,541	\$ -	\$ 1,501,854
Due from (to) UPHS central treasury	295,475	32,179	2,663,797	36,664	(261,358)	102,413	-	-	31,623	(2,900,793)	-	-
Patient receivables, net	59,915	11,579	260,948	83,446	36,124	58,770	135,124	37,863	42,312	-	-	726,081
Third party payer receivables	-	-	1,925	978	-	1,111	-	-	-	-	-	4,014
Other current assets	15,276	5,082	103,878	54,298	15,625	24,037	38,875	14,555	7,232	43,730	-	322,588
Total current assets	370,666	48,840	3,030,548	175,386	(209,609)	186,331	470,011	164,120	100,766	(1,782,522)	-	2,554,537
Assets whose use is limited												
Held by trustee	90,881	-	7,200	-	-	-	6,179	5,272	12	29,484	-	139,028
RRG/Captive	-	-	-	-	-	-	49,212	-	-	-	194,410	243,622
Designated	-	-	672,449	-	-	68,520	1,136,726	-	-	956,176	-	2,833,871
Donor-restricted investments	-	-	137,679	157,030	18,643	281,474	37,207	21,088	1,132	3,523	-	657,776
	90,881	-	817,328	157,030	18,643	349,994	1,229,324	26,360	1,144	989,183	194,410	3,874,297
Investments	-	-	-	-	-	141	30,718	190,988	71	538,870	-	760,788
Property and equipment, net	22,658	36,623	1,127,679	367,252	442,338	238,980	825,534	412,594	5,073	1,890,678	-	5,369,409
Other assets	66,405	19,268	32,243	133,089	22,174	1,180	70,126	44,201	2,059	209,733	-	600,478
Total assets	\$ 550,610	\$ 104,731	\$ 5,007,798	\$ 832,757	\$ 273,546	\$ 776,626	\$ 2,625,713	\$ 838,263	\$ 109,113	\$ 1,845,942	\$ 194,410	\$ 13,159,509
Liabilities and Net Assets												
Current												
Accounts payable	\$ 128	\$ 110	\$ (30)	\$ 150	\$ 1,694	\$ 318	\$ 38,539	\$ 17,352	\$ 350	\$ 180,719	\$ -	\$ 239,330
Accrued expenses	131,205	41,244	168,058	38,718	31,626	28,442	115,192	34,630	17,834	321,219	-	928,168
Current portion of long-term debt	-	-	19,172	5,555	-	11,103	7,174	5,659	-	50,000	-	98,663
Due to the University of Pennsylvania	-	-	-	-	-	-	-	-	-	16,562	-	16,562
Third party payer settlements	-	-	308,126	107,891	50,672	66,730	102,211	54,995	-	79	-	690,704
Total current liabilities	131,333	41,354	495,326	152,314	83,992	106,593	263,116	112,636	18,184	568,579	-	1,973,427
Long-term debt, net of current portion	-	-	1,314,675	105,462	61,385	100,563	369,412	271,363	-	469,394	-	2,692,254
Third party payer settlements, net of current portion	(5)	-	-	-	(2,886)	-	-	-	481	2,499	-	89
Other liabilities	64,172	16,087	36,294	95,171	18,341	594	108,978	30,976	972	631,238	176,674	1,179,497
Pension and postretirement benefit liability	90,881	-	-	-	-	-	313,961	24,980	-	1,113,159	-	1,542,981
Total liabilities	286,381	57,441	1,846,295	352,947	160,832	207,750	1,055,467	439,955	19,637	2,784,869	176,674	7,388,248
Net assets												
Net assets without donor restriction	264,229	47,119	3,022,412	322,980	82,892	287,398	1,533,681	374,106	87,957	(942,281)	17,736	5,098,229
Net assets with donor restrictions	-	171	139,091	156,830	29,822	281,478	36,565	24,202	1,519	3,354	-	673,032
Total net assets	264,229	47,290	3,161,503	479,810	112,714	568,876	1,570,246	398,308	89,476	(938,927)	17,736	5,771,261
Total liabilities and net assets	\$ 550,610	\$ 104,731	\$ 5,007,798	\$ 832,757	\$ 273,546	\$ 776,626	\$ 2,625,713	\$ 838,263	\$ 109,113	\$ 1,845,942	\$ 194,410	\$ 13,159,509

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, 2021 (thousands of dollars)

	CPUP	CCA	HUP	Penn Presbyterian	TCHS	Pennsylvania	LGH	PHCS	Wissahickon Hospice/ Homecare	Corporate	RRG/ Captive	Eliminations	Total
Revenues													
Net patient service revenue	623,480	223,252	2,709,800	819,262	382,099	652,674	1,378,759	476,658	263,644	16,001	-	-	7,545,629
Other revenue and support	168,675	30,873	491,697	160,873	29,037	77,280	180,963	25,452	3,209	94,838	46,562	(176,980)	1,132,479
Total revenues	792,155	254,125	3,201,497	980,135	411,136	729,954	1,559,722	502,110	266,853	110,839	46,562	(176,980)	8,678,108
Expenses													
Salaries and wages	700,278	137,374	756,544	291,223	155,824	242,364	628,282	214,048	113,187	341,951	-	-	3,581,075
Employee benefits	137,358	31,810	259,092	93,238	39,440	78,524	166,203	51,133	34,347	54,113	-	-	945,258
Supplies and other expenses	97,917	74,539	1,105,108	357,142	153,904	238,903	491,172	159,929	97,159	311,768	780	(13,596)	3,074,725
Corporate services/inter-entity support	(284,611)	2,708	637,710	148,103	48,683	122,358	86,131	43,280	13,081	(700,621)	-	(116,822)	-
Depreciation and amortization	4,998	2,353	88,237	28,499	24,684	27,423	69,433	36,162	874	51,047	-	-	333,710
Malpractice	40,668	6,096	20,594	6,698	1,274	6,492	6,934	2,215	82	(14,998)	45,782	(46,562)	75,275
Interest	-	-	8,103	4,199	1,352	2,445	11,996	7,210	-	294	-	-	35,599
Pereriman School of Medicine (PSOM) support	10	-	11,854	4,805	-	-	-	-	-	4,914	-	-	21,583
Total expenses	696,618	254,880	2,887,242	933,907	425,161	718,509	1,460,151	513,977	258,730	48,468	46,562	(176,980)	8,067,225
Excess (deficit) of revenue over expenses from operations	95,537	(755)	314,255	46,228	(14,025)	11,445	99,571	(11,867)	8,123	62,371	-	-	610,883
Nonoperating gains (loss)													
Investment Income, net	5,893	1,081	322,899	2,040	(921)	34,319	421,486	80,068	551	340,634	67	-	1,208,117
Contributions, other support and other gain/(loss), net	-	-	275	-	1,178	228	(11,031)	520	-	(12,558)	-	-	(21,388)
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	(310)	-	-	(310)
Excess (deficit) of revenue over expenses	101,430	326	637,429	48,268	(13,768)	45,992	510,026	68,721	8,674	390,447	67	-	1,797,302
Change in unrealized gain (loss) on investments	-	-	-	-	-	-	-	-	-	(11,334)	-	-	(11,334)
Transfers to PSOM and University, net	(50,932)	-	(70,020)	-	-	(623)	-	-	(157)	(120,690)	-	-	(242,422)
Net assets released from restrictions for capital	-	-	22	-	144	-	(186)	-	-	-	-	-	(20)
Pension and other postretirement plan adjustments	-	-	-	-	-	-	91,016	5,861	-	479,144	-	-	576,021
Increase/(decrease) in net assets without donor restriction	\$ 50,498	\$ 326	\$ 567,431	\$ 48,268	\$ (13,624)	\$ 45,369	\$ 600,856	\$ 74,582	\$ 8,517	\$ 737,567	\$ 67	\$ -	\$ 2,119,547

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, 2020 (thousands of dollars)

	CPUP	CCA	HUP	Penn Presbyterian	TCHS	Pennsylvania	LGH	PHCS	Wissahickon Hospice/ Homecare	Corporate	RRG/ Captive	Eliminations	Total
Revenues													
Net patient service revenue	605,786	185,294	2,454,906	741,652	350,432	602,211	1,202,102	439,282	231,406	155	-	-	6,813,226
Other revenue and support	120,025	29,731	477,600	186,233	22,016	71,182	129,826	35,818	4,217	46,569	43,885	(172,440)	994,662
Total revenues	<u>725,811</u>	<u>215,025</u>	<u>2,932,506</u>	<u>927,885</u>	<u>372,448</u>	<u>673,393</u>	<u>1,331,928</u>	<u>475,100</u>	<u>235,623</u>	<u>46,724</u>	<u>43,885</u>	<u>(172,440)</u>	<u>7,807,888</u>
Expenses													
Salaries and wages	682,698	122,805	721,707	277,348	143,288	235,299	594,104	214,385	106,849	299,549	-	-	3,398,032
Employee benefits	130,183	27,003	231,957	82,252	33,838	71,915	149,163	42,405	30,311	59,891	-	-	858,918
Supplies and other expenses	144,907	59,895	992,923	326,014	147,621	211,585	431,558	151,483	80,438	307,186	780	(22,739)	2,831,651
Corporate services/inter-entity support	(294,713)	(7,050)	622,707	144,791	51,846	124,251	79,191	35,236	11,411	(661,074)	-	(106,596)	-
Depreciation and amortization	5,532	2,148	81,052	28,076	20,264	28,512	69,433	37,782	922	50,921	-	-	324,642
Malpractice	41,010	5,550	20,594	6,692	1,503	6,492	17,746	1,416	72	(5,000)	43,105	(43,105)	96,075
Interest	-	-	13,334	5,846	(5,709)	3,264	11,842	8,410	-	(757)	-	-	36,230
Perelman School of Medicine (PSOM) support	155	-	11,755	2,884	-	-	-	-	-	4,824	-	-	19,618
Total expenses	<u>709,772</u>	<u>210,351</u>	<u>2,696,029</u>	<u>873,903</u>	<u>392,651</u>	<u>681,318</u>	<u>1,353,037</u>	<u>491,117</u>	<u>230,003</u>	<u>55,540</u>	<u>43,885</u>	<u>(172,440)</u>	<u>7,565,166</u>
Excess (deficit) of revenue over expenses from operations	16,039	4,674	236,477	53,982	(20,203)	(7,925)	(21,109)	(16,017)	5,620	(8,816)	-	-	242,722
Nonoperating gains (loss)													
Investment Income, net	9,094	125	67,004	(660)	244	4,948	49,032	6,837	412	3,006	2,410	-	142,452
Contributions, other support and other gain/(loss), net	-	11	810	8,460	(1,538)	284	5,479	(14,428)	17,189	(14,358)	-	-	1,909
Excess (deficit) of revenue over expenses	25,133	4,810	304,291	61,782	(21,497)	(2,693)	33,402	(23,608)	23,221	(20,168)	2,410	-	387,083
Change in unrealized gain (loss) on investments	-	-	-	-	-	-	-	-	-	6,492	-	-	6,492
Transfers to PSOM and University, net	(62,221)	-	(85,091)	-	(154)	(611)	-	-	-	(65,589)	-	-	(213,666)
Net assets released from restrictions for capital	-	-	-	-	2,185	-	5,107	-	-	-	-	-	7,292
Pension and other postretirement plan adjustments	-	-	-	-	-	-	(129,562)	(10,009)	-	(183,401)	-	-	(322,972)
Increase/(decrease) in net assets without donor restriction	<u>\$ (37,088)</u>	<u>\$ 4,810</u>	<u>\$ 219,200</u>	<u>\$ 61,782</u>	<u>\$ (19,466)</u>	<u>\$ (3,304)</u>	<u>\$ (91,053)</u>	<u>\$ (33,617)</u>	<u>\$ 23,221</u>	<u>\$ (262,666)</u>	<u>\$ 2,410</u>	<u>\$ -</u>	<u>\$ (135,771)</u>

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University of Pennsylvania Health System
Combining Balance Sheet of PHCS
June 30, 2021 (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	\$ 99,001	\$ 1,149	\$ (7,231)	4,229	\$ 97,148
Patient receivables, net	49,566	-	2,695	-	52,261
Other current assets	14,761	33	1,660	-	16,454
Total current assets	<u>163,328</u>	<u>1,182</u>	<u>(2,876)</u>	<u>4,229</u>	<u>165,863</u>
Assets whose use is limited					
Held by trustee	5,525	-	-	-	5,525
Donor-restricted	-	34,784	-	(4,229)	30,555
	5,525	34,784	-	(4,229)	36,080
Investments	220,205	48,767	-	-	268,972
Property and equipment, net	383,875	249	450	-	384,574
Other assets	83,672	-	865	(22,078)	62,459
Total assets	<u>\$ 856,605</u>	<u>\$ 84,982</u>	<u>\$ (1,561)</u>	<u>\$ (22,078)</u>	<u>\$ 917,948</u>
Liabilities and Net Assets					
Current					
Accounts payable	\$ 14,665	\$ -	\$ 2,380	\$ -	\$ 17,045
Accrued expenses	31,521	93	2,586	-	34,200
Current portion of long-term debt	5,894	-	-	-	5,894
Third party payer settlements	39,592	-	-	-	39,592
Total current liabilities	91,672	93	4,966	-	96,731
Long-term debt, net of current portion	263,721	-	-	-	263,721
Other liabilities	60,425	8	1,412	-	61,845
Pension and postretirement benefit liability	12,114	-	-	-	12,114
Total liabilities	<u>427,932</u>	<u>101</u>	<u>6,378</u>	<u>-</u>	<u>434,411</u>
Net assets					
Net assets without donor restriction	406,583	50,066	(7,939)	(22)	448,688
Net assets with donor restriction	22,090	34,815	-	(22,056)	34,849
Total net assets	<u>428,673</u>	<u>84,881</u>	<u>(7,939)</u>	<u>(22,078)</u>	<u>483,537</u>
Total liabilities and net assets	<u>\$ 856,605</u>	<u>\$ 84,982</u>	<u>\$ (1,561)</u>	<u>\$ (22,078)</u>	<u>\$ 917,948</u>

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University of Pennsylvania Health System
Combining Balance Sheet of PHCS
June 30, 2020 (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	\$ 104,964	\$ 769	\$ 1,805	4,164	\$ 111,702
Patient receivables, net	35,491	-	2,372	-	37,863
Other current assets	13,708	3	844	-	14,555
Total current assets	154,163	772	5,021	4,164	164,120
Assets whose use is limited					
Held by trustee	5,272	-	-	-	5,272
Donor-restricted	-	25,364	-	(4,276)	21,088
	5,272	25,364	-	(4,276)	26,360
Investments	156,340	34,537	-	111	190,988
Property and equipment, net	411,776	287	531	-	412,594
Other assets	62,658	-	1,323	(19,780)	44,201
Total assets	\$ 790,209	\$ 60,960	\$ 6,875	\$ (19,781)	\$ 838,263
Liabilities and Net Assets					
Current					
Accounts payable	\$ 15,310	\$ -	\$ 2,042	\$ -	\$ 17,352
Accrued expenses	29,109	7	2,674	2,840	34,630
Current portion of long-term debt	5,659	-	-	-	5,659
Third party payer settlements	54,974	-	21	-	54,995
Total current liabilities	105,052	7	4,737	2,840	112,636
Long-term debt, net of current portion	271,363	-	-	-	271,363
Other liabilities	30,361	16	599	-	30,976
Pension and postretirement benefit liability	27,820	-	-	(2,840)	24,980
Total liabilities	434,596	23	5,336	-	439,955
Net assets					
Net assets without donor restriction	335,729	36,862	1,539	(24)	374,106
Net assets with donor restriction	19,884	24,075	-	(19,757)	24,202
Total net assets	355,613	60,937	1,539	(19,781)	398,308
Total liabilities and net assets	\$ 790,209	\$ 60,960	\$ 6,875	\$ (19,781)	\$ 838,263

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University of Pennsylvania Health System
Combining Statement of Operations of PHCS
Period Ended June 30, 2021 (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	\$ 381,520	\$ 62,214	\$ 443,734	\$ -	\$ 32,924	\$ -	\$ 476,658
Other revenue	16,200	317	16,517	2,628	7,031	(724)	25,452
Total revenues	<u>397,720</u>	<u>62,531</u>	<u>460,251</u>	<u>2,628</u>	<u>39,955</u>	<u>(724)</u>	<u>502,110</u>
Expenses							
Salaries and wages	139,691	29,800	169,491	869	43,688	-	214,048
Employee benefits	34,729	8,352	43,081	228	7,824	-	51,133
Supplies and expenses	142,256	20,610	162,866	2,417	(4,630)	(724)	159,929
Corporate services/inter-entity support	38,796	2,678	41,474	-	1,806	-	43,280
Depreciation and amortization	33,970	2,075	36,045	38	79	-	36,162
Malpractice	1,296	173	1,469	-	746	-	2,215
Interest	7,210	-	7,210	-	-	-	7,210
Total expenses	<u>397,948</u>	<u>63,688</u>	<u>461,636</u>	<u>3,552</u>	<u>49,513</u>	<u>(724)</u>	<u>513,977</u>
Excess (deficit) of revenue over expenses from operations	(228)	(1,157)	(1,385)	(924)	(9,558)	-	(11,867)
Nonoperating gains (loss)							
Investment Income, net	63,936	-	63,936	14,128	-	2,004	80,068
Contributions, other support and other gain/(loss), net	2,442	-	2,442	-	82	(2,004)	520
Excess (deficit) of revenue over expenses	<u>66,150</u>	<u>(1,157)</u>	<u>64,993</u>	<u>13,204</u>	<u>(9,476)</u>	<u>-</u>	<u>68,721</u>
Transfers and net assets released from restrictions for capital	-	-	-	-	(2)	2	-
Pension and other postretirement plan adjustments	5,861	-	5,861	-	-	-	5,861
Increase/(decrease) in net assets without donor restriction	<u>\$ 72,011</u>	<u>\$ (1,157)</u>	<u>\$ 70,854</u>	<u>\$ 13,204</u>	<u>\$ (9,478)</u>	<u>\$ 2</u>	<u>\$ 74,582</u>

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University of Pennsylvania Health System
Combining Statement of Operations of PHCS
Period Ended June 30, 2020 (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	\$ 346,288	\$ 63,064	\$ 409,352	\$ -	\$ 29,930	\$ -	\$ 439,282
Other revenue	30,576	455	31,031	2,344	3,574	(1,131)	35,818
Total revenues	<u>376,864</u>	<u>63,519</u>	<u>440,383</u>	<u>2,344</u>	<u>33,504</u>	<u>(1,131)</u>	<u>475,100</u>
Expenses							
Salaries and wages	136,239	31,316	167,555	766	46,064	-	214,385
Employee benefits	25,921	8,895	34,816	219	7,370	-	42,405
Supplies and expenses	136,611	21,711	158,322	1,950	(7,658)	(1,131)	151,483
Corporate services/inter-entity support	29,352	3,931	33,283	97	1,856	-	35,236
Depreciation and amortization	35,497	2,168	37,665	25	92	-	37,782
Malpractice	758	115	873	-	543	-	1,416
Interest	8,410	-	8,410	-	-	-	8,410
Total expenses	<u>372,788</u>	<u>68,136</u>	<u>440,924</u>	<u>3,057</u>	<u>48,267</u>	<u>(1,131)</u>	<u>491,117</u>
Excess (deficit) of revenue over expenses from operations	4,076	(4,617)	(541)	(713)	(14,763)		(16,017)
Nonoperating gains (loss)							
Investment Income, net	5,764	-	5,764	1,073	-	-	6,837
Contributions and other support	2,758	-	2,758	-	(17,186)	-	(14,428)
Excess (deficit) of revenue over expenses	<u>12,598</u>	<u>(4,617)</u>	<u>7,981</u>	<u>360</u>	<u>(31,949)</u>	<u>-</u>	<u>(23,608)</u>
Change in unrealized gain (loss) on investments	-	-	-	-	-	-	-
Transfers and net assets released from restrictions for capital	-	-	-	-	-	-	-
Pension and other postretirement plan adjustments	(10,009)	-	(10,009)	-	-	-	(10,009)
Increase/(decrease) in net assets without donor restriction	<u>\$ 2,589</u>	<u>\$ (4,617)</u>	<u>\$ (2,028)</u>	<u>\$ 360</u>	<u>\$ (31,949)</u>	<u>\$ -</u>	<u>\$ (33,617)</u>

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