Single Audit Report

UPMC
Years Ended June 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP

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UPMC

Single Audit Report

Years Ended June 30, 2014 and 2013

Table of Contents

Report of Independent Auditors....1

Audited Consolidated Financial Statements

Consolidated Balance Sheets....3
Consolidated Statements of Operations and Changes in Net Assets....4
Consolidated Statements of Cash Flows....5
Notes to Consolidated Financial Statements....6

Single Audit Report

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*....30

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133....32

Supplementary Information

Schedule of Expenditures of Federal, State, and County Awards....35
Notes to Schedule of Expenditures of Federal, State, and County Awards....40

Schedule of Findings and Questioned Costs....42

Summary Schedule of Prior Audit Findings....47

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Report of Independent Auditors

The Board of Directors
UPMC
Pittsburgh, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of UPMC and subsidiaries, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of UPMC and subsidiaries at June 30, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Restatement of June 30, 2014 Financial Statements

As discussed in Note 2 to the consolidated financial statements, the June 30, 2014 consolidated financial statements have been restated to correct purchase accounting errors related to the understatement of assumed pension obligations. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal, state, and county awards as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated August 28, 2014, on our consideration of the UPMC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UPMC's internal control over financial reporting and compliance.

Ernst + Young LLP

August 28, 2014, except for Notes 2, 3, and 9, as to which the date is May 15, 2015 and except for the schedule of expenditures of federal, state, and county awards, for which the date is January 20, 2015

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	June 30	
	2014 As Restated	2013
CURRENT ASSETS		
Cash and cash equivalents	**$ 449,539**	$ 203,118
Patient accounts receivable,		
net of allowance for uncollectible accounts of $121,740 at June 30, 2014		
and $116,974 at June 30, 2013	**694,090**	615,316
Other receivables	**569,102**	514,329
Other current assets	**165,287**	130,405
Total current assets	**1,878,018**	1,463,168
Board-designated, restricted, trusteed and other investments	**4,272,766**	3,964,499
Beneficial interests in foundations and trusts	**461,504**	417,064
Property, buildings and equipment:		
Land and land improvements	**330,615**	356,663
Buildings and fixed equipment	**4,695,017**	4,617,051
Movable equipment and internal-use software development costs	**2,393,772**	2,286,731
Capital leases	**129,992**	140,570
Construction in progress	**162,481**	102,104
	7,711,877	7,503,119
Less allowance for depreciation	**(4,037,036)**	(3,778,042)
	3,674,841	3,725,077
Other assets	**295,238**	323,759
Total assets	**$ 10,582,367**	$ 9,893,567
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 411,250**	$ 381,435
Accrued salaries and related benefits	**551,752**	481,125
Current portion of insurance reserves	**405,777**	336,542
Current portion of long-term obligations	**325,519**	163,859
Other current liabilities	**291,672**	268,954
Total current liabilities	**1,985,970**	1,631,915
Long-term obligations	**2,804,541**	3,096,010
Pension liability	**170,532**	130,809
Long-term insurance reserves	**264,565**	256,339
Other noncurrent liabilities	**171,204**	161,788
Total liabilities	**5,396,812**	5,276,861
Unrestricted net assets	**4,528,034**	4,002,255
Restricted net assets	**657,521**	614,451
Total net assets	**5,185,555**	4,616,706
Total liabilities and net assets	**$ 10,582,367**	$ 9,893,567

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(IN THOUSANDS)

	Twelve Months Ended June 30	
	2014 As Restated	2013
UNRESTRICTED NET ASSETS		
Net patient service revenue:		
Patient service revenue (net of contractual allowances and discounts)	**$5,989,391**	$5,378,339
Provision for bad debts	**(212,519)**	(211,633)
Net patient service revenue less provision for bad debts	**5,776,872**	5,166,706
Insurance enrollment revenue	**4,813,036**	4,257,230
Other revenue	**826,004**	764,503
Total operating revenues	**11,415,912**	10,188,439
Expenses:		
Salaries, professional fees and employee benefits	**4,440,575**	3,984,082
Supplies, purchased services and general	**6,331,112**	5,648,558
Depreciation and amortization	**453,996**	423,652
Total operating expenses	**11,225,683**	10,056,292
Operating income (excluding inherent contribution – UPMC Altoona affiliation, Beacon investment divestiture, other operating (loss) income and income tax expense)	**190,229**	132,147
Inherent contribution – UPMC Altoona affiliation	**2,974**	–
Beacon investment divestiture	**(106,000)**	–
Other operating (loss) income	**(12,450)**	11,192
Income tax expense	**(4,791)**	(3,056)
After-tax operating income	**$69,962**	$140,283
Investing and financing activities:		
Investment income	**529,642**	352,451
Interest expense	**(129,992)**	(128,926)
Loss on extinguishment of debt	**(6,152)**	(4,418)
Gain from investing and financing activities	**393,498**	219,107
Excess of revenues over expenses	**463,460**	359,390
Other changes in unrestricted net assets	**62,319**	40,191
Increase in unrestricted net assets	**525,779**	399,581
RESTRICTED NET ASSETS		
Contributions and other changes	**799**	22,851
Net realized gains and unrealized gains on restricted investments	**12,748**	9,404
Assets released from restriction for operations and capital purchases	**(14,917)**	(21,603)
Net increase in beneficial interests in foundations and trusts	**44,440**	31,254
Increase in restricted net assets	**43,070**	41,906
Increase in net assets	**568,849**	441,487
Net assets, beginning of period	**4,616,706**	4,175,219
Net assets, end of period	**$5,185,555**	$4,616,706

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Twelve Months Ended June 30	
	2014 As Restated	2013
OPERATING ACTIVITIES		
Increase in net assets	**$ 568,849**	$ 441,487
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**453,996**	423,652
Provision for bad debts	**212,519**	211,633
Net change in beneficial interest in foundations and trusts	**(44,440)**	(91,539)
Net change in pension liability	**(143,904)**	(109,477)
Restricted contributions and investment revenue	**(13,547)**	(17,255)
Unrealized gains on investments	**(222,674)**	(62,939)
Realized gains on investments	**(256,119)**	(253,713)
Net change in non alternative investments	**152,514**	52,470
Inherent contribution – UPMC Altoona affiliation	**(2,974)**	–
Beacon investment divestiture	**106,000**	–
Other operating loss (income)	**12,450**	(11,192)
Amortization of bond premium	**(10,733)**	(11,948)
Derivative contracts mark to market	**(8,678)**	(9,101)
Equity loss on joint ventures	**8,301**	16,676
Changes in operating assets and liabilities:		
Accounts receivable	**(327,014)**	(249,048)
Other current assets	**(29,529)**	(9,718)
Accounts payable and accrued liabilities	**51,058**	4,100
Insurance reserves	**77,461**	72,125
Other current liabilities	**37,798**	(97,953)
Other noncurrent assets and liabilities	**(52,435)**	14,586
Net cash provided by operating activities	**568,899**	312,846
INVESTING ACTIVITIES		
Purchase of property and equipment (net of disposals)	**(409,622)**	(471,156)
Net cash acquired (as part of acquisitions)	**15,952**	–
Investments in joint ventures	**(28,686)**	(29,000)
Net change in investments designated as nontrading	**27,949**	(10,565)
Net change in alternative investments	**83,867**	35,688
Net change in other assets	**9,651**	39,968
Net cash used in investing activities	**(300,889)**	(435,065)
FINANCING ACTIVITIES		
Repayments of long-term obligations	**(241,374)**	(352,208)
Borrowings of long-term obligations	**206,238**	414,466
Restricted contributions and investment income	**13,547**	17,255
Net cash (used in) provided by financing activities	**(21,589)**	79,513
Net change in cash and cash equivalents	**246,421**	(42,706)
Cash and cash equivalents, beginning of period	**203,118**	245,824
Cash and cash equivalents, end of period	**$ 449,539**	$ 203,118
SUPPLEMENTAL INFORMATION		
Capital lease obligations incurred to acquire assets	**$ 19,575**	$ 46,019

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

1. ORGANIZATIONAL OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UPMC is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code ("Code") as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pennsylvania, UPMC is one of the leading integrated delivery and financing systems in the United States. UPMC is an integrated global health enterprise leveraging medical expertise, geographic reach, and financial stability in a model of care excellence that can transform health care nationally and internationally. UPMC comprises nonprofit and for-profit entities offering medical and health care related services, including health insurance products. Closely affiliated with the University of Pittsburgh ("University") and with shared academic and research objectives, UPMC partners with the University's Schools of the Health Sciences to deliver outstanding patient care, train tomorrow's health care specialists and biomedical scientists, and conduct groundbreaking research on the causes and course of disease.

The accompanying consolidated financial statements include the accounts of UPMC and its subsidiaries. The consolidated financial statements are comprised of domestic and foreign nonprofit and for-profit entities that maintain separate books and records as part of their legal incorporation. Intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and investments, which are so near to maturity (maturity of three months or less when purchased) that they present insignificant risk of changes in value.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts in the period in which services are provided. The majority of UPMC's services are rendered to patients under Medicare, Highmark Blue Cross Blue Shield ("Highmark"), and Medical Assistance programs. Reimbursement under these programs is based on a combination of prospectively determined rates and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents.

For the years ended June 30, 2014 and 2013, the percentage of patient service revenue, net of contractual allowances and discounts, derived from third-party payers and self-pay patients is as follows:

	June 30	
Year Ended	**2014**	2013
Third party	**94%**	94%
Self-pay	**6%**	6%
	100%	100%

In 2014 and 2013, the percentage of net patient service revenue derived from Medicare, Highmark, Medical Assistance, and national payers, excluding UPMC Altoona, is as follows:

	June 30	
Year Ended	**2014**	2013
Medicare	**33%**	33%
Highmark	**31%**	32%
Medical Assistance	**9%**	10%
National payers	**11%**	10%

(IN THOUSANDS)

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

Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue for 2014 and 2013 was increased by approximately $10,768 and $9,160, respectively, for prior-year settlements.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. UPMC records a provision for bad debts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and copayment balances due for which third-party coverage exists for a portion of their balance. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Significant concentrations of net patient accounts receivable at June 30, 2014 and 2013, excluding UPMC Altoona, include:

	June 30	
Year Ended	**2014**	2013
Highmark	**31%**	32%
Medicare	**16%**	17%
National payers	**10%**	11%
Medical Assistance	**7%**	7%

The commercial contracts between Highmark and UPMC will expire on December 31, 2014. UPMC notified Highmark that there will be no commercial contract renewals when the current contracts expire. In addition, on June 12, 2013, the UPMC Board of Directors announced a formal resolution that UPMC cannot extend the existing contracts or enter into new commercial contracts that would provide Highmark subscribers with in-network access to the UPMC Subsidiary Hospitals or physicians in southwestern Pennsylvania, because Highmark had stated in regulatory filings that it intended to "tier and steer" 41,000 patients away from UPMC and local community hospitals into its own subsidiary, Allegheny Health Network. On June 27, 2014, Governor Tom Corbett and Attorney General Kathleen Kane announced that UPMC and Highmark had entered into parallel consent decrees governing western Pennsylvania's transition into the new healthcare environment that will emerge when most of Highmark's contracts for in-network services at UPMC expire on December 31, 2014. The consent decrees confirm the expiration of most UPMC-Highmark commercial contracts on December 31, 2014. The consent decrees usher in a new era of robust competition in the western Pennsylvania provider and health insurance markets.

Board-Designated, Restricted, Trusteed, and Other Investments

Substantially all of UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as investment revenue in the consolidated statements of operations and changes in net assets. UPMC's investments in debt and equity securities that are donor-restricted assets are designated as nontrading. Unrealized gains and losses on donor-restricted assets are recorded as changes in restricted net assets in the consolidated statements of operations and changes in net assets. Gains and losses on the sales of securities are determined by the average cost method. Realized gains and losses are included in investment revenue in the consolidated statements of operations and changes in net assets.

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

Investments in limited partnerships that invest in marketable securities (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. The values provided by the respective partnerships are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, UPMC's holdings reflect net contributions to the partnership and an allocated share of realized and unrealized investment income and expenses. The investments may individually expose UPMC to securities lending, short sales, and trading in futures and forward contract options and other derivative products. UPMC's risk is limited to its carrying value for these lending and derivatives transactions. Amounts can be divested only at specified times. The financial statements of the limited partnerships are audited annually, generally as of December 31. These investments are summarized as alternative investments in Note 5.

Investments in limited partnerships that invest in nonmarketable securities (private equity) are primarily recorded at cost if the ownership percentage is less than 5% and are reported using the equity method of accounting if the ownership percentage is greater than 5%. These investments are periodically evaluated for impairment. These investments are summarized as alternative investments in Note 5.

Financial Instruments

Cash and cash equivalents and investments recorded at fair value aggregate $2,974,960 and $2,460,193 at June 30, 2014 and 2013, respectively. The fair value of these instruments is based on market prices as estimated by financial institutions. The fair value of long-term debt at June 30, 2014 and 2013, is $3,276,244 and $3,355,582, respectively, based on market prices as estimated by financial institutions. The fair value of amounts owed to counterparties under derivative contracts at June 30, 2014 and 2013, is $15,969 and $21,615, respectively, and due from counterparties is $7,274 and $4,178, respectively, based on pricing models that take into account the present value of estimated future cash flows.

Beneficial Interests in Foundations and Trusts

Several of UPMC's subsidiary hospitals have foundations that, according to their bylaws, were formed for the exclusive purpose of supporting and furthering the mission of the respective hospital. The foundations are separate corporations and are not liable for the obligations of UPMC, including any claims of creditors of any UPMC entities. The net assets of certain foundations are included in the consolidated balance sheets as beneficial interests in foundations and restricted net assets because the hospitals' use of these assets is at the discretion of the foundations' independent boards of directors.

Beneficial interests in foundations and trusts of $461,504 and $417,064 and the net assets of a consolidated foundation of $39,397 and $34,842 as of June 30, 2014 and 2013, respectively, are not pledged as collateral for UPMC's debt.

Property, Buildings, and Equipment

Property, buildings, and equipment are recorded at cost or, if donated or impaired, at fair market value at the date of receipt or impairment. Interest cost incurred on borrowed funds (net of interest earned on such funds) during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Costs associated with the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage.

Depreciation is computed using the straight-line method at rates designed to depreciate the assets over their estimated useful lives (predominantly ranging from 3 to 40 years) and includes depreciation related to capitalized leases. Certain newly constructed buildings have estimated useful lives up to 60 years. Depreciation expense on property, buildings, and equipment for years ended June 30, 2014 and 2013 was $458,702 and $429,151, respectively.

Asset Impairment

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

Other Assets

Investments in individual entities in which UPMC has the ability to exercise significant influence but does not control, generally 20% to 50% ownership, are reported using the equity method of accounting. All other noncontrolled investments, generally less than 20% ownership, are carried at cost. Other assets include approximately $117,339 and $98,550 at June 30, 2014 and 2013, respectively, relating to investments in partnerships that provide health care, management, and other goods and services to UPMC, its affiliates, and the community at large.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of June 30, 2014 and 2013, goodwill of $70,774 and $112,854, respectively, is recorded in UPMC's consolidated balance sheets as other assets. The change from prior year is a result of $57,864 of divested goodwill related to Beacon and $15,784 added through various acquisitions. Goodwill is reviewed annually for impairment, or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. In connection with changes in accounting standards, which were adopted by UPMC in 2012, UPMC has the option to qualitatively assess goodwill for impairment before completing a quantitative assessment. Under the qualitative approach, if, after assessing the totality of events or circumstances, including both macroeconomic, industry and market factors, and entity-specific factors, UPMC determines it is likely (more likely than not) that the fair value is greater than its carrying amount, then the quantitative impairment analysis is not required.

The impairment test for goodwill requires a comparison of the fair value of each reporting unit that has goodwill associated with its operations with its carrying amount, including goodwill. The impairment analysis includes estimating the fair market value of each of the reporting units that have goodwill associated with their operations using discounted cash flow and multiples of cash earnings valuation techniques, plus valuation comparisons to market participant entities, if any. These valuation methods require UPMC to make estimates and assumptions regarding future operating results, cash flows, changes in working capital and capital expenditures, profitability, and the cost of capital. Although UPMC believes that the estimates and assumptions used are reasonable, actual results could differ from those estimates and assumptions.

Health Insurance Revenue and Costs

UPMC's insurance subsidiaries (collectively, "Health Plans") provide health care services on a prepaid basis under various contracts. Insurance enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services. Enrollment revenue from Medicare and Medical Assistance approximates 74% and 77% of total enrollment revenue for the years ended June 30, 2014 and 2013, respectively.

Health care costs were approximately $4,436,872 and $3,882,427, of which $1,195,437 and $1,054,948 were eliminated in consolidation representing medical services performed by other UPMC entities for the years ended June 30, 2014 and 2013, respectively. Such costs are included in supplies, purchased services, and general expenses. These costs include estimates of payments to be made on claims reported as of the balance sheet date and estimates of health care services rendered but not reported to the Health Plans. Such estimates include the cost of services that will continue to be rendered after the balance sheet date when the Health Plans are obligated to remit payment for such services in accordance with contract provisions or regulatory requirements. Current accrued insurance reserves include approximately $309,411 and $239,167 at June 30, 2014 and 2013, respectively, relating to estimates of claims payable for health care services.

Unrestricted net assets required to meet statutory requirements of the Health Plans were $320,401 and $273,252 at June 30, 2014 and 2013, respectively.

Derivatives

UPMC uses derivative financial instruments ("derivatives") to modify the interest rates and manage risks associated with its asset allocation and outstanding debt. UPMC records derivatives as assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. UPMC has entered into interest rate swap agreements that convert a portion of its variable rate debt to a fixed interest rate. UPMC has also entered into equity-related derivatives to manage the asset allocation in its investment portfolio. Under the equity index swap agreements, UPMC pays a fixed income-like return in order to receive an equity-like return. The notional amount of these swaps is based upon UPMC's target asset allocation. None of UPMC's swaps outstanding as of June 30, 2014 and 2013, are designated as hedging instruments and, as such, changes in fair value are recognized in investing and financing activities as investment revenue in the consolidated statements of operations and changes in net assets.

By using derivatives to manage these risks, UPMC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivatives. When the fair value of a derivative is positive, the counterparty owes UPMC, which creates credit risk for UPMC. When the fair value of a derivative is negative, UPMC owes the counterparty, and therefore, it does not incur credit risk. UPMC minimizes the credit risk in derivatives by entering into transactions that require the counterparty to post collateral for the benefit of UPMC based on the credit rating of the counterparty and the fair value of the derivative. If UPMC has a derivative in a liability position, UPMC's credit is a risk and fair market values could be adjusted downward. Market risk is the effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of derivative positions in the context of UPMC's total blended cost of capital.

Net Assets

Resources are classified for reporting purposes as unrestricted, temporarily restricted, or permanently restricted, according to the absence or existence of donor-imposed restrictions. Board-designated net assets are unrestricted net assets that have been set aside by the Board for specific purposes. Temporarily restricted assets are those assets, including contributions and accumulated investment returns, whose use has been limited by donors for a specific purpose or time period. Permanently restricted net assets are those for which donors require the principal of the gifts to be maintained in perpetuity to provide a permanent source of income.

Restricted net assets include $244,238 and $228,055 of permanently restricted net assets held in perpetuity at June 30, 2014 and 2013, respectively. The remainder of restricted net assets is temporarily restricted and primarily represents beneficial interests in foundations that support research and other health care programs. Temporarily restricted net assets are limited by donors and the foundations to a specific time period or purpose. Temporarily restricted net assets are reclassified to unrestricted net assets and included in the consolidated statements of operations and changes in net assets as other revenue or assets released from restriction for capital purchases when the restriction is met.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses as a performance indicator. Excess of revenues over expenses includes all changes in unrestricted net assets except for contributions and distributions from foundations for the purchase of property and equipment, adjustments for pension liability if any, discontinued operations if any, and the cumulative effect of changes in accounting principles if any.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications were made to the 2013 accompanying financial statements to conform to the 2014 presentation. In 2013, split-interest investments of $37,132 were reported as Board-designated, restricted, trusteed, and other investments; this amount has been adjusted to reflect split-interest investments in the beneficial interests in foundations and trusts account. The split-interest investments are irrevocable by the donors. UPMC has not been designated as the trustee and has recorded the beneficial interest at fair market value. The board-designated, restricted, trusteed, and other investments as previously reported and as revised were $4,001,631 and $3,964,499, respectively, and the beneficial interests in foundations and trusts as previous reported and as revised were $379,932 and $417,064, respectively. In 2013, $35,688 of net change in alternative investments was classified as an operating activity on the statement of cash flow; this amount has been reclassified to reflect the net change in alternative investments as an investing activity. In 2013, $18,996 of combined amortization of bond premium and derivatives mark to market was reclassified from a financing activity to an operating activity on the statement of cash flows. These reclassifications had no impact on the changes in net assets or excess of revenues over expenses previously reported. These revisions are not considered material to the consolidated financial statements of UPMC.

New Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2011-06, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers*. ASU 2011-06 addresses the timing, recognition, and classification of the annual health insurance industry assessment fee imposed on health insurers by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, "PPACA"). The mandatory annual fee of health insurers will be imposed for each calendar year beginning on or after January 1, 2014. This update required that the liability for the fee be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The disclosure requirements are effective for annual reporting periods beginning on or after December 31, 2013, and interim periods therein, with retrospective application required. UPMC applied the guidance provided by ASU 2011-06 beginning on July 1, 2013. The adoption of ASU 2011-06 did not materially affect UPMC's financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. An entity should apply the amendments in this update using either a full retrospective application or a modified retrospective application. Under the full retrospective application, an entity will apply the standard to each prior reporting period presented. Under the modified retrospective application, an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. UPMC is evaluating this new guidance and has not yet determined which approach it will adopt to apply the amendments in ASU 2014-09 or the impact that the adoption of this update will have on its financial statements.

(IN THOUSANDS)

2. RESTATEMENT

UPMC has restated its previously issued consolidated financial statements as of, and for the year ended, June 30, 2014 to correct purchase accounting errors related to the understatement of assumed pension obligations in connection with the acquisition of Altoona Regional Health System ("Altoona"). An error resulted from certain nonstandard and undisclosed assumptions that were used by Altoona's historical actuary when calculating pension obligations. This resulted in an understatement of the pension liability of $129,236, an overstatement of the inherent contribution for the UPMC-Altoona affiliation of $104,195 and an overstatement of other changes in unrestricted net assets of $25,041 recorded in the consolidated financial statements as of, and for the year ended, June 30, 2014. An additional pension funding requirement of $66,000, which was remitted in March 2015, was also required.

As a result of the aforementioned understatement of Altoona's pension liability, there is a reasonable possibility that UPMC may be liable for penalties and interest related to the previously underfunded liability. After considering the additional $66,000 contribution made to the Altoona pension plan in March 2015, the plan is fully funded so as to avoid paying excess premiums to the Pension Benefit Guaranty Corporation. UPMC has self-reported the understated pension liability to the Internal Revenue Service ("IRS"), however, at this time, UPMC has not been advised of and cannot estimate any potential additional liability associated with the understated pension liability. UPMC believes that the matter will be resolved without a material adverse effect on UPMC's results of operations or financial position; however, the ultimate outcome and effect on UPMC's financial statements are unknown.

A summary of the impact of the restatement corrections on the consolidated financial statements as of and for the year ended June 30, 2014 is as follows:

	Previously Reported	Adjustments	As Restated
Total current assets	$ 1,878,018	$ -	$ 1,878,018
Board-designated, restricted, trustee and other	4,272,766	-	4,272,766
Beneficial interests in foundations	461,504	-	461,504
Net property, buildings, and equipment	3,674,841	-	3,674,841
Other assets	295,238	-	295,238
Total assets	$ 10,582,367	$ -	$ 10,582,367
Total current liabilities	1,985,970	-	1,985,970
Long-term obligations	2,804,541	-	2,804,541
Pension liability	41,296	129,236	170,532
Long-term insurance reserves	264,565	-	264,565
Other long-term liabilities	171,204	-	171,204
Total liabilities	5,267,576	129,236	5,396,812
Unrestricted net assets	4,657,270	(129,236)	4,528,034
Restricted net assets	657,521	-	657,521
Total net assets	5,314,791	(129,236)	5,185,555
Total liabilities and net assets	$ 10,582,367	$ -	$ 10,582,367

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

	Previously Reported	Adjustments	As Restated
UNRESTRICTED NET ASSETS			
Net patient service revenue:			
Patient service revenue (net of contractual allowances and discounts)	$5,989,391	-	$5,989,391
Provision for bad debts	(212,519)	-	(212,519)
Net patient service revenue less provision for bad debts	5,776,872	-	5,776,872
Insurance enrollment revenue	4,813,036	-	4,813,036
Other revenue	826,004	-	826,004
Total operating revenues	11,415,912	-	11,415,912
Expenses:			
Salaries, professional fees and employee benefits	4,440,575	-	4,440,575
Supplies, purchased services and general	6,331,112	-	6,331,112
Depreciation and amortization	453,996	-	453,996
Total operating expenses	11,225,683	-	11,225,683
Operating income (excluding inherent contribution – UPMC Altoona affiliation, Beacon investment divestiture, other operating (loss) income and income tax expense)	190,229	-	190,229
Inherent contribution – UPMC Altoona affiliation	107,169	(104,195)	2,974
Beacon investment divestiture	(106,000)	-	(106,000)
Other operating (loss) income	(12,450)	-	(12,450)
Income tax expense	(4,791)	-	(4,791)
After-tax operating income	$174,157	(104,195)	$69,962
Investing and financing activities:			
Investment income	529,642	-	529,642
Interest expense	(129,992)	-	(129,992)
Loss on extinguishment of debt	(6,152)	-	(6,152)
Gain from investing and financing activities	393,498	-	393,498
Excess of revenues over expenses	567,655	(104,195)	463,460
Other changes in unrestricted net assets	87,360	(25,041)	62,319
Increase in unrestricted net assets	655,015	(129,236)	525,779
RESTRICTED NET ASSETS			
Contributions and other changes	799	-	799
Net realized gains and unrealized gains on restricted investments	12,748	-	12,748
Assets released from restriction for operations and capital purchases	(14,917)	-	(14,917)
Net increase in beneficial interests in foundations and trusts	44,440	-	44,440
Increase in restricted net assets	43,070	-	43,070
Increase in net assets	698,085	(129,236)	568,849
Net assets, beginning of period	4,616,706	-	4,616,706
Net assets, end of period	$5,314,791	(129,236)	$5,185,555

(IN THOUSANDS)

	Previously Reported	Adjustments	As Restated
OPERATING ACTIVITIES			
Increase in net assets	$698,085	(129,236)	$568,849
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization	453,996	-	453,996
Provision for bad debts	212,519	-	212,519
Net change in beneficial interest in foundations and trusts	(44,440)	-	(44,440)
Net change in pension liability	(168,945)	25,041	(143,904)
Restricted contributions and investment revenue	(13,547)	-	(13,547)
Unrealized gains on investments	(222,674)	-	(222,674)
Realized gains on investments	(256,119)	-	(256,119)
Net change in non alternative investments	152,514	-	152,514
Inherent contribution – UPMC Altoona affiliation	(107,169)	104,195	(2,974)
Beacon investment divestiture	106,000	-	106,000
Other operating loss (income)	12,450	-	12,450
Amortization of bond premium	(10,733)	-	(10,733)
Derivative contracts mark to market	(8,678)	-	(8,678)
Equity loss on joint ventures	8,301	-	8,301
Changes in operating assets and liabilities:			
Accounts receivable	(327,014)	-	(327,014)
Other current assets	(29,529)	-	(29,529)
Accounts payable and accrued liabilities	51,058	-	51,058
Insurance reserves	77,461	-	77,461
Other current liabilities	37,798	-	37,798
Other noncurrent assets and liabilities	(52,435)	-	(52,435)
Net cash provided by operating activities	568,899	-	568,899
INVESTING ACTIVITIES			
Purchase of property and equipment (net of disposals)	(409,622)	-	(409,622)
Net cash acquired (as part of acquisitions)	15,952	-	15,952
Investments in joint ventures	(28,686)	-	(28,686)
Net change in investments designated as nontrading	27,949	-	27,949
Net change in alternative investments	83,867	-	83,867
Net change in other assets	9,651	-	9,651
Net cash used in investing activities	(300,889)	-	(300,889)
FINANCING ACTIVITIES			
Repayments of long-term obligations	(241,374)	-	(241,374)
Borrowings of long-term obligations	206,238	-	206,238
Restricted contributions and investment income	13,547	-	13,547
Net cash (used in) provided by financing activities	(21,589)	-	(21,589)
Net change in cash and cash equivalents	246,421	-	246,421
Cash and cash equivalents, beginning of period	203,118	-	203,118
Cash and cash equivalents, end of period	$449,539	-	$449,539
SUPPLEMENTAL INFORMATION			
Capital lease obligations incurred to acquire assets	$19,575	-	$19,575

3. SIGNIFICANT TRANSACTIONS

On July 1, 2013, UPMC, Altoona and Altoona's supporting foundation, The Foundation for Life, executed an Integration and Affiliation Agreement (the "Agreement") providing for an affiliation between UPMC and Altoona. Altoona is a multi-institutional nonprofit health system that includes hospitals and a network of other health care providers servicing the city of Altoona and a larger multi-county area in western Pennsylvania. The transaction is intended to preserve and enhance the mission of Altoona and to enhance Altoona's ability to provide high-quality health services to the greater Altoona region. On the date of the affiliation, the articles of incorporation and bylaws of Altoona were amended such that UPMC became the sole corporate member of Altoona.

As a result of the affiliation, UPMC acquired approximately $362,000 of total assets, consisting primarily of $159,000 of property, plant and equipment, $136,000 of current and long-term assets and $67,000 of accounts receivable, and assumed approximately $359,000 of Altoona's liabilities, as restated per Note 2, including $184,000 of pension liability, $75,000 of current and long-term liabilities and $100,000 of long-term debt obligations. Pursuant to the Agreement, UPMC will provide Altoona with a total investment of $250,000 over a 10-year period that will support expansion and enhancement of medical services for the communities that Altoona serves. Additionally, UPMC provided seed funding in the amount of $10,000 to The Foundation for Life.

UPMC applied the not-for-profit business combination accounting guidance. The guidance primarily characterizes business combinations between not-for-profit entities as nonreciprocal transfers of assets resulting in the contribution of the acquiree's net assets to the acquirer. The guidance prescribes that the acquirer recognize an excess of the acquisition date unrestricted net assets acquired over the fair value of the consideration transferred as a separate credit in its statement of operations as of the acquisition date. Accordingly, UPMC recognized contribution income, as restated per Note 2, related to the unrestricted net assets acquired in the transaction of $2,974 in its statements of operations and changes in net assets for the twelve months ended June 30, 2014. The contribution income recorded for the twelve months ended June 30, 2014 is based on the fair market values of the unrestricted net assets acquired. During the fiscal year ended 2014, UPMC recognized net patient service revenues for the full twelve months after the acquisition on July 1, 2013, of approximately $488,000 and excess of expenses over revenues of approximately $8,600, including $5,490 related to a one time loss on extinguishment of debt, as well as a decrease in unrestricted net assets of $3,996 and a decrease in restricted net assets of $400 related to Altoona. If Altoona had been consolidated in the fiscal year ended 2013, UPMC would have recognized additional net patient service revenues of approximately $479,000 and an increase in excess of revenues over expenses of approximately $7,000, as well as increases in unrestricted net assets of $365 and increases in restricted net assets of $185.

In April 2014, UPMC divested all of its interest in Beacon Hospital in Ireland. As part of the transaction, UPMC paid approximately $25,000 and divested approximately $231,000 of long-term debt and other obligations and approximately $312,000 of total assets. As a result, UPMC recorded a loss on deconsolidation of approximately $106,000 in its statements of operations and changes in net assets for the year ended June 30, 2014. The Whitfield Cancer Centre in Waterford, Ireland is unaffected by this transaction.

4. CHARITY CARE

UPMC's patient acceptance policy is based on its mission and its community service responsibilities. Accordingly, UPMC accepts patients in immediate need of care, regardless of their ability to pay. UPMC does not pursue collection of amounts determined to qualify as charity care based on established policies of UPMC. These policies define charity care as those services for which no payment is due for all or a portion of the patient's bill. For financial reporting purposes, charity care is excluded from net patient service revenue. The amount of charity care provided, determined on the basis of cost, was $130,269 and $99,208 for the years ended June 30, 2014 and 2013, respectively. UPMC estimates the cost of providing charity care using the ratio of average patient care cost to gross charges and then applying that ratio to the gross uncompensated charges associated with providing charity care.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

5. CASH AND INVESTMENTS

Following is a summary of cash and investments included in the consolidated balance sheets:

	June 30	
	2014	2013
Internally designated:		
Funded depreciation	**$ 10,773**	$ 9,461
Employee benefit and workers' compensation self-insurance programs	**77,751**	63,183
Professional and general liability insurance program	**418,713**	366,263
Health insurance programs	**490,478**	543,063
	997,715	981,970
Externally designated:		
Trusteed assets for capital and debt service payments	**4,507**	4,515
Donor-restricted assets	**211,136**	276,217
	215,643	280,732
Other long-term investments	**3,059,408**	2,701,797
Board-designated, restricted, trusteed, and other investments	**4,272,766**	3,964,499
Cash and cash equivalents	**449,539**	203,118
	$ 4,722,305	$ 4,167,617

Following is a summary of the composition of cash and investments. The table below shows all of UPMC's investments, including nonalternative investments measured at fair value and alternative investments using either the cost or equity method of accounting.

	June 30	
	2014	2013
Cash and cash equivalents	**$ 449,539**	$ 203,118
Nonalternative investments:		
Fixed income	**1,209,369**	1,181,920
Domestic equity	**370,727**	270,794
International equity	**724,333**	595,481
Public real estate	**53,995**	43,618
Long/short equity	**95,708**	102,080
Absolute return	**35,283**	30,867
Commodities	**36,006**	32,315
	2,525,421	2,257,075
Alternative investments:		
Long/short equity	**436,375**	403,194
Absolute return	**298,093**	251,320
Private equity	**697,145**	757,150
Private real estate	**168,195**	163,187
Natural resources	**147,537**	132,573
	1,747,345	1,707,424
	$ 4,722,305	$ 4,167,617

(IN THOUSANDS)

Investments are primarily maintained in MTF and administered using a bank as trustee. As of June 30, 2014, UPMC utilized 176 external investment managers, including 31 traditional managers, 26 hedge fund managers, and 119 private equity managers. The largest allocation to any alternative investment fund is $45,970. Certain managers use various equity and interest rate derivatives. These instruments are subject to various risks similar to nonderivative financial instruments, including market, credit, liquidity, operational, and foreign exchange risk.

As of June 30, 2014 and 2013, respectively, UPMC had total investments recorded at cost of $853,183 and $901,326. These investments include private equity limited partnerships recorded at cost.

Investment return from cash and investments is comprised of the following for the years ended June 30, 2014 and 2013:

	Year Ended June 30	
	2014	2013
Interest income	**$ 41,366**	$ 32,384
Dividend income	**27,457**	24,820
Net realized gains on sales of securities	**256,119**	253,713
	324,942	310,917
Unrealized investment gains	**222,674**	62,939
Impairment losses on limited partnerships	**-**	(5,457)
Derivative contracts mark to market	**8,678**	9,101
	231,352	66,583
Total investment gain	**556,294**	377,500
Traditional investment manager and trustee fees	**(26,652)**	(25,049)
Investment income	**$ 529,642**	$ 352,451

In managing the UPMC investment strategy, an important consideration is to ensure sufficient liquidity. While UPMC's relationships with its external investment managers vary in terms of exit provisions, a percentage of the agreements allow ready access to underlying assets which are generally liquid and marketable. Investment liquidity as of June 30, 2014, is shown below:

Liquidity Availability	Cash and Cash Equivalents	Nonalternative Investments	Alternative Investments	Total
Within three days	$ 449,539	$ 2,414,931	$ –	$ 2,864,470
Within 30 days	–	110,490	65,997	176,487
Within 60 days	–	–	83,569	83,569
Within 90 days	–	–	232,741	232,741
More than 90 days	–	–	1,365,038	1,365,038
Total	$ 449,539	$ 2,525,421	$ 1,747,345	$ 4,722,305

(IN THOUSANDS)

6. CREDIT ARRANGEMENTS

UPMC has a revolving line and letter of credit facility (the "Revolving Facility") with an available line of $350,000 and an option to increase the aggregate commitment by $50,000 for a total available line of $400,000. The Revolving Facility expires on June 15, 2016. The Revolving Facility is used to manage cash flow during the year and to provide for a consolidated method of issuing various letters of credit for certain business units. A note to secure UPMC's repayment obligation with respect to the Revolving Facility was issued under the 2007 Master Trust Indenture ("2007 UPMC MTI") and is secured by a pledge of and security interest in the gross revenues of UPMC parent corporation, UPMC Presbyterian Shadyside, Magee-Women's Hospital of UPMC, UPMC Passavant and UPMC St Margaret as members of the obligated group under the 2007 UPMC Master Trust Indenture ("2007 UPMC MTI").

Advances may be variable rate based on the prime rate or the Federal Funds effective rates, or advances may be fixed on the date of the advance based on the British Bankers' Association Interest Settlement Rate and the reserve requirement on Eurocurrency liabilities. No amounts were outstanding under the Revolving Facility as of June 30, 2014 and 2013.

As of June 30, 2014, UPMC has issued $68,207 of letters of credit under the Revolving Facility. These letters of credit predominantly support the capital requirements of certain insurance subsidiaries. As of June 30, 2014, there was $281,793 available to borrow under the Revolving Facility.

The existing Revolving Facility was replaced with a similar Revolving Facility at a different financial institution on July 31, 2014. The terms of the new Revolving Facility are essentially the same as the terms of the old Revolving Facility with the main difference being that the aggregate commitment has been increased to $500,000.

7. LONG-TERM OBLIGATIONS AND DERIVATIVE INSTRUMENTS

Long-term obligations consist of the following:

	June 30	
	2014	2013
Fixed rate revenue bonds	**$ 2,328,953**	$ 2,241,977
Variable rate revenue bonds	**645,580**	673,195
Capital leases and other	**93,977**	278,153
Par value of long-term obligations	**3,068,510**	3,193,325
Net premium and other	**61,550**	66,544
	3,130,060	3,259,869
Less current portion	**(325,519)**	(163,859)
Total long-term obligations	**$ 2,804,541**	$ 3,096,010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

Revenue bonds outstanding represent funds borrowed by the UPMC parent corporation and various subsidiaries pursuant to loan agreements and lease and sublease financing arrangements with governmental authorities. The bond proceeds were used for the purchase, construction, and renovation of hospital facilities, certain buildings and equipment, as well as the extinguishment of debt.

As discussed in footnote 2, UPMC divested its interest in Beacon Hospital during fiscal year 2014 which resulted in a reduction of debt by approximately $200 million. The reduction was partly offset by approximately $100 million increase of debt due to the UPMC Altoona acquisition. Additionally, UPMC issued the 2013A and 2013B bonds totaling $195,000.

The fixed rate revenue instruments bear interest at fixed coupon rates ranging from 0.85% to 6.00% in 2014 and 2013, respectively. The average interest cost for the variable rate instruments was 0.81% and 0.98% during fiscal years 2014 and 2013, respectively. Revenue instruments have varying principal payments and final maturities from 2015 through 2043. Certain revenue bonds are secured by bond insurance ($113,319 and $111,667 in 2014 and 2013, respectively). The revenue bonds contain redemption provisions whereby, at the direction of UPMC, the bonds may be redeemed on various dates as presented within the bond agreements.

Revenue bonds in the aggregate amount of debt outstanding of $2,880,135 and $2,838,594 as of June 30, 2014 and 2013, respectively, are issued under the 2007 UPMC MTI. The instruments are secured by a pledge of and security interest in gross revenues. Certain amounts borrowed under the MTI are loaned to certain subsidiary corporations pursuant to loan and contribution agreements and require the transfer of subsidiary funds to the parent corporation in the event of failure to satisfy the UPMC parent corporation liquidity covenant.

The various indebtedness agreements contain restrictive covenants, the most significant of which are the maintenance of minimum debt service coverage and liquidity ratios, and restrictions as to the incurrence of additional indebtedness and transfers of assets. UPMC was in compliance with such covenants as of June 30, 2014 and 2013.

Aggregate maturities of long-term obligations for the next five years, assuming remarketing of UPMC's variable rate debt, are as follows:

2015	$ 325,519
2016	210,343
2017	133,152
2018	287,096
2019	132,410

Interest paid on all obligations was $137,014 and $135,042 during the years ended June 30, 2014 and 2013, respectively.

UPMC maintains interest rate swap programs on certain of its revenue bonds in order to manage its interest rate risk. To meet this objective and to take advantage of low interest rates, UPMC entered into various interest rate swap agreements to manage interest rate risk. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

During the term of these agreements, the floating to fixed rate swap converts variable rate debt to a fixed rate and the basis swaps convert the interest rate on underlying LIBOR-based bonds to the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA Index").

Under the basis swaps, UPMC pays a rate equal to the SIFMA Index, an index of seven-day, high-grade, tax-exempt variable rate demand obligations. The SIFMA Index rates ranged from 0.03% to 0.12% (weighted average rate of 0.06%) in 2014 and from 0.06% to 0.23% (weighted average rate of 0.14%) in 2013.

(IN THOUSANDS)

The following table summarizes UPMC's interest rate swap agreements:

				Notional Amount at	
Swap	Maturity Date	UPMC Pays	UPMC Receives	**June 30, 2014**	June 30, 2013
Floating to fixed	2025	3.6%	68% one-month LIBOR	**$ 121,095**	$ 128,095
Basis	2021	SIFMA Index	67% three-month LIBOR plus .2077%	**46,430**	52,155
Basis	2037	SIFMA Index	67% three-month LIBOR plus .3217%	**46,095**	46,095
				$ 213,620	$ 226,345

After giving effect to the above derivative transactions, UPMC's variable rate debt was approximately 17% of the total debt outstanding as of June 30, 2014 and 2013.

The following table summarizes UPMC's equity swap agreements:

			Notional Amount at	
Maturity Date	UPMC Pays	UPMC Receives	**June 30, 2014**	June 30, 2013
2014	Three-month LIBOR plus .1800%	MSCI EAFE Daily Total Return[1]	**-**	100,002
2014	Three-month LIBOR plus .4000%	S&P 500 Total Return	**-**	75,000
2014	Three-month LIBOR plus .1000%	MSCI All Country World Daily Total Return[2]	**-**	75,000
2013	Three-month LIBOR plus .1400%	S&P 500 Total Return	**-**	100,000
2014	Three-month LIBOR minus .3500%	S&P 500 Total Return	**100,000**	-
2015	Three-month LIBOR minus .1100%	MSCI All Country World	**75,000**	-
			$ 175,000	$ 350,002

[1] The MSCI EAFE Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.

[2] The MSCI All Country World Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance of developed and emerging markets.

(IN THOUSANDS)

Pursuant to master netting arrangements, UPMC has the right to offset the fair value of amounts recognized for derivatives, including the right to reclaim or obligation to return cash collateral from/to counterparties. The fair values of the Company's derivative financial instruments are presented below, representing the gross amounts recognized as of June 30, 2014 and June 30, 2013 which are not offset by counterparty or by type of item hedged:

	June 30, 2014	June 30, 2013
Other assets	$ 7,274	$ 4,178
Long-term obligations	(15,969)	(21,615)
	$ (8,695)	$ (17,437)

The effects of changes in the fair value of the derivative instruments on the consolidated statements of operations and changes in net assets for the years ended June 30, 2014 and 2013, are as follows:

Type of Derivative	Classification of Unrealized Gain in Excess of Revenues Over Expenses	Amount of Unrealized Gain in Excess of Revenues Over Expenses	
		2014	2013
Interest rate contracts	Investment revenue	$ 1,599	$ 6,917
Equity index contracts	Investment revenue	7,143	2,250
		$ 8,742	$ 9,167

UPMC's derivatives contain provisions that require UPMC's debt to maintain an investment grade credit rating from certain major credit rating agencies. If UPMC's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivatives could request payment or demand immediate and ongoing full overnight collateralization on derivatives in net liability positions. The aggregate fair value of all derivatives with credit-risk-related contingent features that are in a liability position at June 30, 2014 and 2013, is $16,413 and $18,090, respectively, for which UPMC has posted collateral of $0 in the normal course of business. If the credit-risk-related contingent features underlying these derivatives were triggered to the fullest extent on June 30, 2014, UPMC would be required to post an additional $17,890 of collateral to its counterparties.

8. FAIR VALUE MEASUREMENTS

As of June 30, 2014, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include certain board-designated, restricted, trusteed, and other investments and derivatives. UPMC's alternative investments are measured using either the cost or equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein.

The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, include:

- *Level 1* – Quoted prices for identical assets or liabilities in active markets.
- *Level 2* – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-driven valuations whose inputs are observable or whose significant value drivers are observable.
- *Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

The following tables represent UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and 2013. The interest rate swaps are valued using internal models, which are primarily based on market observable inputs, including interest rate curves. When quoted market prices are unobservable for fixed income securities, quotes from independent pricing vendors based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable, are used for valuation purposes. These investments are included in Level 2 and include corporate fixed income, government bonds, mortgage- and asset-backed securities and money market securities, which are included within fixed income and long/short equity. The net asset value has been derived using quoted market prices for the underlying securities.

FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2014

	Level 1	Level 2	Level 3	Total Carrying Amount
ASSETS				
Fixed income	$ 275,732	$ 933,637	$ –	$ 1,209,369
Domestic equity	369,942	785	–	370,727
International equity	613,452	110,881	–	724,333
Public real estate	53,995	–	–	53,995
Commodities	36,006	–	–	36,006
Long/short equity	63,045	32,663	–	95,708
Absolute return	–	35,283	–	35,283
Derivative instruments	–	7,274	–	7,274
Total assets	$ 1,412,172	$ 1,120,523	$ –	$ 2,532,695
LIABILITIES				
Derivative instruments	–	(15,969)	–	(15,969)
Total liabilities	$ –	$ (15,969)	$ –	$ (15,969)

FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2013

	Level 1	Level 2	Level 3	Total Carrying Amount
ASSETS				
Fixed income	$ 335,959	$ 845,961	$ –	$ 1,181,920
Domestic equity	270,585	209	–	270,794
International equity	494,912	100,569	–	595,481
Public real estate	43,618	–	–	43,618
Commodities	32,315	–	–	32,315
Long/short equity	49,144	52,936	–	102,080
Absolute return	–	30,867	–	30,867
Derivative instruments	–	4,178	–	4,178
Total assets	$ 1,226,533	$ 1,034,720	$ –	$ 2,261,253
LIABILITIES				
Derivative instruments	–	(21,615)	–	(21,615)
Total liabilities	$ –	$ (21,615)	$ –	$ (21,615)

(IN THOUSANDS)

9. PENSION PLANS

UPMC and its subsidiaries maintain defined benefit pension plans (the "Plans"), defined contribution plans, and nonqualified pension plans that cover substantially all of UPMC's employees. Under the defined contribution plans, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plans. Contributions to the nonqualified pension plans are based on a percentage of salary or contractual arrangements. Total expense relating to the aforementioned pension plans was $159,499 and $140,125 for the years ended June 30, 2014 and 2013, respectively. Total expense related to the defined contribution plans and nonqualified plans were $76,185 and $69,778 for the years ended June 30, 2014 and 2013, respectively.

Benefits under the Plans vary and are generally based upon the employee's earnings and years of participation. It is UPMC's policy to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and the Pension Protection Act of 2006. UPMC's policy is to contribute amounts sufficient to, among other things, avoid Pension Benefit Guaranty Corporation variable premiums. Contributions made to the Plans were $176,607 and $137,001 for the years ended June 30, 2014 and 2013, respectively.

To develop the expected long-term rate of return on plan assets assumption, UPMC considers the current level of expected returns on risk-free investments, the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The table below, as restated per Note 2, sets forth the accumulated benefit obligation, the change in the projected benefit obligation, and the change in the assets of the Plans. The table also reflects the funded status of the Plans as well as recognized and unrecognized amounts in the consolidated balance sheets.

	June 30	
	2014	2013
Accumulated benefit obligation	**$ 1,587,532**	$ 1,255,464
CHANGE IN PROJECTED BENEFIT OBLIGATION		
Projected benefit obligation at beginning of year	**$ 1,290,727**	$ 1,239,815
Pension plans acquired on July 1, 2013	**364,264**	–
Service cost	**86,933**	71,623
Interest cost	**70,363**	50,574
Actuarial loss	**91,691**	4,044
Plan settlements	**(6,520)**	(4,167)
Benefits paid	**(95,523)**	(71,162)
Projected benefit obligation at end of year	**1,801,935**	1,290,727
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	**1,159,918**	999,345
Pension plans acquired on July 1, 2013	**178,837**	–
Actual return on plan assets	**211,564**	98,901
Employer contributions	**176,607**	137,001
Plan settlements	**–**	(4,167)
Benefits paid	**(95,523)**	(71,162)
Fair value of plan assets at end of year	**1,631,403**	1,159,918
Accrued pension liability	**$ 170,532**	$ 130,809

(IN THOUSANDS)

Included in unrestricted net assets at June 30, 2014 and 2013, respectively, are the following amounts that have not yet been recognized in net periodic pension cost:

	June 30	
	2014	2013
Unrecognized prior service (cost) credit	**$ (906)**	$ 652
Unrecognized net actuarial loss	**(395,509)**	(350,352)
Unrecognized transition asset	**3**	9
	$ (396,412)	$ (349,691)

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2014 and 2013 include:

	June 30	
	2014	2013
Current year net actuarial gain	**$ 37,047**	$ 6,279
Amortization of actuarial loss	**34,221**	37,685
Amortization of net prior service credit	**(340)**	(957)
Amortization recognized due to curtailment	**6,510**	–
	$ 77,438	$ 43,007

No plan assets are expected to be returned to UPMC during the year ending June 30, 2015.

The components of net periodic pension cost for the Plans were as follows:

	Year Ended June 30	
	2014	2013
Service cost	**$ 78,542**	$ 71,623
Pension plans acquired on July 1, 2013	**8,391**	–
Interest cost	**70,363**	50,574
Expected return on plan assets	**(108,025)**	(88,579)
Recognized net actuarial loss	**34,265**	36,393
Settlement charge	**118**	1,287
Amortization of prior service credit	**(340)**	(951)
Net periodic pension cost	**$ 83,314**	$ 70,347

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

	June 30	
	2014	2013
Discount rates:		
Used for benefit obligations	**4.20%**	4.72%
Used for net periodic pension cost	**4.72%**	4.32%
Expected rate of compensation increase:		
Used for benefit obligations	**Age-graded**	Age-graded
Used for net periodic pension cost	**Age-graded**	Age-graded
Expected long-term rate of return on plan assets	**8.00%**	8.00%
Interest crediting rate	**3.20%**	3.72%

The change in discount rate from 4.72% to 4.20% and the change in interest crediting rate from 3.72% to 3.20% had the net effect of increasing the projected benefit obligation by $43,012.

(IN THOUSANDS)

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years ending June 30:

2015	$ 129,531
2016	117,965
2017	123,725
2018	130,543
2019	134,188
2020–2024	719,021

UPMC employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets subject to accepting a prudent level of risk. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. The pension portfolio contains a diversified blend of equity, fixed-income, and alternative investments. Equity investments are diversified across United States and non-United States corporate stocks, as well as growth, value, and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to enhance long-term returns while improving portfolio diversification. UPMC's external investment managers may use derivatives to gain market exposure in an efficient and timely manner. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

As of June 30, 2014, UPMC employed 119 external investment managers to handle the investment of the assets in the pension portfolio. Of these, 18 managers manage equity investments, 5 manage fixed income investments, and 96 managers oversee alternative investment strategies. The largest allocation to any alternative investment manager is $17,605.

The following is a summary of the pension plan asset allocations at June 30, 2014 and 2013:

	2014	2013	Target
Nonalternative investments:			
Fixed income	**12.3%**	11.3%	10.0%
Domestic equity	**15.3%**	15.7%	15.0%
International equity	**25.8%**	22.9%	25.0%
Total nonalternative investments	**53.4%**	49.9%	50.0%
Real assets:			
Real estate	**3.7%**	4.7%	4.0%
Income opportunities	**0.2%**	0.1%	2.0%
Natural resources	**2.8%**	3.1%	4.0%
Total real assets	**6.7%**	7.9%	10.0%
Alternative investments:			
Long/short equity	**13.2%**	11.7%	15.0%
Absolute return	**8.9%**	8.9%	10.0%
Private equity	**17.8%**	21.6%	15.0%
Total alternative investments	**39.9%**	42.2%	40.0%
Total	**100.0%**	100.0%	100.0%

(IN THOUSANDS)

All of the Plans' assets are measured at fair value, including its alternative investments. The same levels of the fair value hierarchy as described in Note 8 are used to categorize the Plans' assets. Corporate debt instruments and fixed income/bonds are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. The fair value of common/collective trust funds is determined by the issuer sponsoring such funds by dividing the fund's net assets at fair value by its units outstanding at the valuation dates. Partnership interests are valued using net asset value ("NAV"), which is based on the unit values of the interests as determined by the issuer sponsoring such interests dividing the fund's net assets at fair value by its units outstanding at the valuation dates.

The fair values of the Plans' assets at June 30, 2014, by asset category and by the level of inputs used to determine fair value, were as follows:

	Level 1	Level 2	Level 3	Total
ASSETS				
Cash	$ 3,216	$ –	$ –	$ 3,216
Equity securities:				
Domestic equity	254,073	–	–	254,073
International equity	357,912	–	–	357,912
U.S. REITS	20,625	–	–	20,625
Fixed income:				
Government securities	11,908	–	–	11,908
Corporate debt instruments	8,396	34,502	–	42,898
Asset and Mortgage backed securities	–	9,404	–	9,404
Common collective trusts	98,412	94,562	–	192,974
Private equity and hedge partnerships:				
Private real estate	–	–	54,992	54,992
Private natural resources	–	–	43,932	43,932
Absolute return hedge funds	–	37,091	103,406	140,497
Long/short hedge funds	51,784	23,681	134,209	209,674
Private equity	–	–	288,120	288,120
Net receivables	1,178	–	–	1,178
Plans' assets at fair value	$ 807,504	$ 199,240	$ 624,659	$ 1,631,403

(IN THOUSANDS)

The fair values of the Plans' assets at June 30, 2013, by asset category and by the level of inputs used to determine fair value, were as follows:

	Level 1	Level 2	Level 3	Total
ASSETS				
Cash	$ 535	$ –	$ –	$ 535
Equity securities:				
Domestic equity	179,337	–	–	179,337
International equity	212,299	–	–	212,299
U.S. REITS	18,353	–	–	18,353
Fixed income:				
Government securities	1,212	–	–	1,212
Corporate debt instruments	–	21,505	–	21,505
Common collective trusts	96,372	49,515	–	145,887
Private equity and hedge partnerships:				
Private real estate	–	–	50,380	50,380
Private natural resources	–	–	36,466	36,466
Absolute return hedge funds	–	19,978	83,054	103,032
Long/short hedge funds	13,180	14,190	108,088	135,458
Private equity	–	–	254,426	254,426
Net receivables	1,028	–	–	1,028
Plans' assets at fair value	$ 522,316	$ 105,188	$ 532,414	$ 1,159,918

Changes in the fair value of the Plans' Level 3 assets for the year ended June 30, 2014, were as follows:

	Level 3
Balance, June 30, 2013	$ 532,414
Actual return on plan assets:	
Related to assets still held at the reporting date	55,229
Related to assets sold during the period	28,665
Purchases, sales, issuances and settlements (net)	8,351
Balance, June 30, 2014	$ 624,659

10. PROFESSIONAL AND GENERAL LIABILITY INSURANCE

UPMC is insured for professional and general liability losses through wholly owned, multiprovider insurance companies ("Captives"). The Captives provide primary and excess professional liability coverage to UPMC subsidiaries, employed physicians of UPMC, and other entities not included in the consolidated financial statements.

Certain insurance agreements have retrospective clauses that permit additional premiums or refunds to be made based on actual experience. The reserve for professional and general liability indemnity losses and loss adjustment expenses is determined using individual case-based evaluations and statistical analyses and represents an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for professional and general liability losses and loss adjustment expenses are reasonable. The estimates are reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations. Reserves for professional and general liability losses and loss adjustment expenses of approximately $315,931 and $303,044 discounted at 1.25% and 0.75% were recorded as of June 30, 2014 and 2013, respectively. The effect of the change in discount rate from 0.75% to 1.25% decreased the reserves for professional and general liability losses by approximately $3,600. At June 30, 2014 and 2013, respectively, $66,453 and $61,933 of the loss reserves are included in current accrued insurance reserves and $249,478 and $241,111 are reported as accrued long-term insurance reserves.

The Medical Care Availability and Reduction of Error ("MCARE") Act was enacted by the legislature of the Commonwealth of Pennsylvania ("Commonwealth") in 2002. This Act created the MCARE Fund, which replaced The Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the "Medical CAT Fund"), as the agency for the Commonwealth to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by UPMC and other health care providers practicing in the Commonwealth.

The MCARE Fund is funded on a "pay as you go basis" and assesses health care providers based on a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth agency) for basic coverage. The MCARE Act of 2002 provides for a further reduction to the current MCARE coverage of $500 per occurrence to $250 per occurrence and the eventual phaseout of the MCARE Fund, subject to the approval of the PA Insurance Commissioner. To date, the PA Insurance Commissioner has deferred the change in coverage and eventual phaseout of the MCARE Fund to future years.

11. WORKERS' COMPENSATION SELF-INSURANCE

UPMC is self-insured for workers' compensation losses up to a maximum limit of $1,000 per occurrence. Losses incurred over this limit are covered by a supplemental catastrophic policy thru a commercial carrier with statutory limits. Estimated accruals for workers' compensation were $24,106 and $24,247 discounted at 4.00% as of June 30, 2014 and 2013.

12. RELATED-PARTY TRANSACTIONS

UPMC purchases and sells certain services from and to the University. The most significant payment to the University is for physician services whereby the University, acting as a common paymaster, invoices UPMC for the clinical services rendered by certain faculty and medical residents. Payments to the University related to physician services amounted to $152,263 and $149,132 for the years ended June 30, 2014 and 2013, respectively. UPMC provides direct financial support to the University to sustain the research and academic medical enterprise of the University. Payments to the University related to research and academic support amounted to $107,376 and $97,098 for the years ended June 30, 2014 and 2013, respectively.

(IN THOUSANDS)

UPMC has various facility rental agreements with the University. UPMC received rent income of $24,319 and $23,637 and incurred rent expense of $8,664 and $10,136 related to rental arrangements with the University for the years ended June 30, 2014 and 2013, respectively. These rental agreements are also included in Note 13.

The University subcontracts with UPMC to perform research activity. Payments from the University related to research activity were $34,055 and $37,237 for the years ended June 30, 2014 and 2013, respectively.

UPMC has equity investments in entities that sell and purchase various patient care-related services to and from UPMC. Payments to equity investment entities were $11,844 and $43,401 for the years ended June 30, 2014 and 2013, respectively. Revenues from equity investment entities were $47,560 and $41,484 for the years ended June 30, 2014 and 2013, respectively.

Receivables and payables are settled with affiliated entities in the normal course of business. Other receivables include $6,996 and $12,694 as of June 30, 2014 and 2013, respectively, relating to amounts due from affiliates in connection with these transactions.

13. OPERATING LEASES AND OTHER LONG-TERM AGREEMENTS

UPMC has entered into certain long-term agreements with respect to facilities, equipment, and services with affiliated and other entities. The terms of the agreements generally range from 1 to 25 years with renewal options up to 15 years. Total expense under these agreements was approximately $110,996 and $113,047 for the years ended June 30, 2014 and 2013, respectively, for all long-term agreements.

Approximately 3.02% of total future payments are subject to adjustment based upon inflation or mutual negotiations. Approximately 4.60% of these payments are due to the University.

2015	$ 90,705
2016	72,068
2017	50,754
2018	42,862
2019	36,229
Thereafter	271,188

14. INCOME TAXES

UPMC calculates income taxes using the balance sheet method for its taxable subsidiaries. Taxable income differs from pretax book income principally due to certain income and deductions for tax purposes being recorded in the financial statements in different periods. Deferred income tax assets and liabilities are recorded for the tax effect of these differences using enacted tax rates for the years in which the differences are expected to reverse. UPMC assesses the realization of deferred tax assets and the need for a valuation allowance to reduce those assets to their net realizable value based on future operations, reversal of existing temporary differences, carryforward and carryback periods for credits and net operating losses, and potential tax planning strategies that may exist.

Tax benefits are recognized when it is more likely than not that a tax position will be sustained upon examination by the tax authorities based on the technical merits of the position. Such tax positions are measured as the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the tax authorities assuming full knowledge of the position and all relevant facts. As of June 30, 2014, UPMC does not have any unrecorded tax benefits.

(IN THOUSANDS)

As of June 30, 2014, the for-profit entities of UPMC had gross federal net operating loss ("NOL") carryforwards of $420,155 (expiring in years 2018 through 2034) and gross state NOL carryforwards of $208,183 (expiring in years 2019 through 2034) that are available to offset future taxable income. Utilization of the state NOL carryforwards in any one year is limited to the greater of $3,000 or 20% of taxable income on an annual basis per company. During the year ended June 30, 2014, UPMC realized tax benefits of $5,762 from the use of NOL carryforwards. Net deferred tax assets of $159,407, primarily related to NOL carryforwards, have a valuation allowance recorded against them of $153,849 due to the uncertainty of realizing these benefits in the future.

The following table presents deferred tax assets as of June 30:

	2014	2013
Deferred tax assets:		
Federal NOL	**$ 142,854**	$ 113,003
Accrued benefits	**10,836**	8,510
Alternative minimum tax credit carryover and other	**5,717**	11,899
	159,407	133,412
Less valuation allowance	**(153,849)**	(127,854)
	$ 5,558	$ 5,558

15. FUNCTIONAL EXPENSES

UPMC provides general health care services primarily to residents within its geographic location and supports research and education programs. For the years ended June 30, 2014 and 2013, expenses related to providing these services were as follows:

	2014	2013
Hospital health care services, including health insurance costs	**$ 8,436,775**	$ 7,364,966
Other health care services	**1,411,633**	1,341,613
Academic and research activities	**419,868**	444,712
Administrative support	**1,429,311**	1,241,842
	$ 11,697,587	$ 10,393,133

16. CONTINGENCIES

UPMC is involved in litigation and responding to requests for information from governmental agencies occurring in the normal course of business. Certain of these matters are in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon the results of operations or financial position of UPMC. Management believes that these matters will be resolved without material adverse effect on UPMC's results of operations or financial position. However, the ultimate outcome and effect on UPMC's financial statements are unknown.

In December 2010, a proposed class action was filed in United States District Court for the Western District of Pennsylvania by Royal Mile Company, Inc., and certain related entities and persons against UPMC and Highmark. In that action the plaintiffs alleged that UPMC and Highmark had conspired to allow Highmark to charge excessive, above-market premiums for health insurance. The complaint closely tracks the allegations made by West Penn Allegheny Health System ("WPAHS") in a 2009 lawsuit that was ultimately dismissed. The action has been designated as "related" to the WPAHS lawsuit and has been assigned to the same District Court Judge. Although the case had been stayed pending the disposition of petitions for certiorari being filed in the WPAHS lawsuit, the District Court Judge lifted the stay following the denial of the petitions for certiorari. The plaintiffs filed an Amended Complaint in August 2012, which included two additional antitrust counts against UPMC based on its alleged conspiracy with Highmark. In September 2012, both UPMC and Highmark filed motions to dismiss plaintiffs' Amended Complaint.

On September 27, 2013, the Court granted UPMC's motion to dismiss the plaintiffs' Complaint, giving plaintiffs thirty days to file a Second Amended Complaint. On October 29, 2013, Royal Mile filed a motion for leave to file a Third Amended Complaint. The Court held argument on this motion in April 2014. UPMC continues to believe that the plaintiffs' allegations have no merit and expects that the matter will be resolved without any material adverse effect on UPMC's results of operations or financial position.

In March and April 2009, several related class action lawsuits were filed against UPMC and certain of its affiliates in the Federal District Court for the Western District of Pennsylvania ("District Court") and the Court of Common Pleas for Allegheny County, Pennsylvania. The Federal District Court cases allege violations of The Fair Labor Standards Act ("FLSA") on the basis that certain employees were not paid for all hours that they worked and were not properly paid overtime and, further, that these actions also violated the Employee Retirement Income Security Act ("ERISA") and the Racketeer Influenced and Corrupt Organizations Act ("RICO"). The state court actions allege violations of the Pennsylvania Minimum Wage Act, The Wage Payment and Collection Act and common law on the same factual basis noted above. The lawsuits seek recovery of alleged unpaid wages and benefits and other monetary damages and costs. In 2012, the Court in two of the federal class action lawsuits entered an Order granting UPMC's motion to decertify the collective action that had been conditionally entered at an earlier date. The Plaintiffs filed an unopposed Motion for Voluntary Dismissal with Prejudice for the purposes of appeal in both cases. The District Court signed a generic "Order of Dismissal with Prejudice" in both cases which includes the named Plaintiffs. The case was appealed to the Third Circuit, which dismissed based on lack of jurisdiction. Plaintiffs' counsel has re-filed a similar collective action case in the Western District of Pennsylvania, against various UPMC affiliates and executives using different named plaintiffs. However, the Plaintiffs continue to allege that they were not paid for work performed during unpaid meal breaks in violation of the Fair Labor Standards Act. UPMC and certain of its affiliates filed a Motion to Dismiss the action based on collateral estoppel. Plaintiffs' counsel filed a Motion for Partial Summary Judgment relying on representations made during a deposition conducted in the earlier case. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

In November 2010, the DOJ opened an investigation into whether or not certain hospitals nationwide submitted claims to Medicare for payment related to the implantation of implantable cardioverter defibrillators that were excluded from Medicare coverage. UPMC is in the process of discussing its review of the claims with the government. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

In January 2012, UPMC Hamot was served with a Complaint in federal court naming it as a defendant in a qui tam action, along with a private physician practice. UPMC Hamot moved to dismiss the Complaint in April 2012. The Relator opposed UPMC Hamot's motion to dismiss in June 2012. In November 2012, the Court granted UPMC Hamot's motion in part and denied it in part. The Relator filed an Amended Complaint. UPMC Hamot moved to dismiss the Amended Complaint in January 2013. In July 2013, the Court denied UPMC Hamot's motion to dismiss. UPMC Hamot answered the Complaint on September 18, 2013. Discovery is ongoing. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

In July 2012, a class action suit was filed against UPMC and other defendants in the Allegheny County Court of Common Pleas alleging Pennsylvania wage and hour violations. The Complaint alleges that RN staff members with a BSN were not credited the pay differential to which they were entitled and seeks damages for that differential as well as liquidated damages and interest. UPMC filed preliminary objections that were sustained in part and overruled in part, resulting in the dismissal of all named defendants except UPMC. UPMC also filed an Answer with New Matter, denying all material allegations. Plaintiffs have filed an Amended Complaint naming each UPMC hospital as a defendant. The plaintiffs also filed a Motion to Certify the class, which UPMC , et al. opposed. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

In September 2012, a suit was filed against UPMC, Maxim Staffing Solutions, Inc. ("Maxim") and Medical Solutions, LLC, in the Allegheny County Court of Common Pleas ("Common Pleas Court") at GD 12-016165, alleging the defendants acted negligently in failing to prevent a Maxim employee, staffed at UPMC between March 2008 and May 2008, from spreading the Hepatitis C virus ("HCV"). UPMC notified the Pennsylvania Attorney General that this employee was terminated from UPMC for violations related to attempts to switch syringes. Additionally, in September 2012, a Pennsylvania resident filed a putative class action suit against UPMC and Maxim in the Common Pleas Court at GD 12-016636, alleging that the defendants negligently failed to properly hire, investigate, and retain and/or supervise the employee. This case, which does not allege contraction of HCV, brought the action on behalf of a putative class consisting of persons who "were potentially and unwittingly exposed to the blood borne illnesses" of the employee while he worked at UPMC. In October 2012, others who have allegedly contracted HCV filed a putative class action against UPMC and Maxim in Common Pleas Court at GD 12-020264, alleging that UPMC acted negligently in failing to prevent approximately 2,000 former patients and their spouses and significant others from being exposed to HCV. These two class actions have been limited to only physical injury from the needlestick for HCV testing. In December 2012, a Kansas husband and wife and other plaintiffs filed three putative actions in Common Pleas Court, at GD 12-024324,against UPMC, Maxim and a third defendant also alleging that UPMC acted negligently in failing to prevent former patients and their spouses and significant others from being exposed to HCV. UPMC has filed preliminary objections to all of these actions. These cases have been dismissed, but the plaintiffs filed a motion to reconsider. A fourth case, at GD 14-000899, has been filed by the estate of a Kansas patient similar to the three that have already been dismissed. UPMC filed preliminary objections to this new case and expects that it too will be dismissed. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

In March 2013, the City of Pittsburgh filed an action against UPMC in the Allegheny County Court of Common Pleas seeking a declaration that UPMC is not an "institution of purely public charity" under Pennsylvania law and therefore, is ineligible for a charitable exemption under the City's payroll tax ordinance. The City also sought an order requiring UPMC to pay payroll taxes dating back to March 2007. On October 29, 2013, the City filed an amended Complaint. UPMC filed preliminary objections to that Complaint. In June 2014, the Court granted those preliminary objections. The City has elected not to appeal that Order, which has brought the City's lawsuit to a close.

In September 2013, a Complaint was filed with the National Labor Relations Board, Region 6 against UPMC Presbyterian Shadyside (PUH). The Complaint was amended in January 2014 to add UPMC as another defendant. The Amended Complaint, stemming from multiple unfair labor practice charges filed by the Service Employees International Union ("SEIU") Healthcare Pennsylvania alleges that UPMC PUH engaged in various activities that violate the National Labor Relations Act. In response, the National Labor Realtions Board ("NLRB") is seeking relief in the form of: a workplace posting, to be displayed for 120 days, as determined by the proceedings; a public reading of the posting to UPMC employees; an Order granting the SEIU full access to public areas at PUH during non-working hours for the purpose of speaking to employees; an Order granting the SEIU permission to post its notices and distribute literature at PUH; the repayment of various taxes related to the termination of four employees identified in the complaint; and other undefined relief as deemed appropriate. UPMC anticipates that the "undefined relief" will include back pay and reinstatement for the four terminated employees. A five-week hearing was conducted before an administrative law judge. The parties are awaiting a decision. The ultimate outcome and effect on UPMC's financial statements are unknown.

In February 2014, a putative class action against UPMC and UPMC McKeesport was filed in the Court of Common Pleas of Allegheny County, Pennsylvania, at GD 14-003285, asserting claims for negligence, breach of privacy, and breach of implied contract in connection with a data breach at UPMC involving the personally identifiable information of certain UPMC employees. The purported class consists of former, current, and future UPMC employees. UPMC has filed preliminary objections challenging the substantive basis of the claims. The ultimate outcome and effect on UPMC's financial statements are unknown.

17. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to June 30, 2014 through August 28, 2014, the date the audited consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements that have not been recorded.

Single Audit Report

Building a better working world

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Senior Management and the Board of Directors
UPMC
Pittsburgh, Pennsylvania

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of UPMC and subsidiaries (UPMC), which comprise the balance sheet as of June 30, 2014, and the related statements operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements. We have issued our report thereon dated August 28, 2014, and expressed an unmodified opinion thereon. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of UPMC's internal control over financial reporting as of June 30, 2014, based on criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), and our report dated August 28, 2014, expressed an unmodified opinion thereon.

Internal Control Over Financial Reporting

A *deficiency in internal control* over financial reporting (internal control) exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's annual or interim financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. We consider the deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether UPMC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

UPMC'S Response to Findings

UPMC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. UPMC's response was not subjected to the auditing procedures applied in the audits of the financial statements and internal control over financial reporting and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

August 28, 2014, except for Notes 2, 3, and
9, as to which the date is May 15, 2015

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Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Senior Management and The Board of Directors
UPMC
Pittsburgh, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the UPMC and subsidiaries' (UPMC's) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of UPMC's major federal programs for the year ended June 30, 2014. UPMC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of UPMC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about UPMC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of UPMC's compliance.

Opinion on Each Major Federal Program

In our opinion, UPMC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of UPMC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered UPMC's internal control over compliance with the types requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of UPMC's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ernst + Young LLP

January 20, 2015

Schedule of Expenditures of Federal, State, and County Awards

UPMC

Schedule of Expenditures of Federal, State, and County Awards

For the Year Ended June 30, 2014

Agency Providing Award	Pass-Through Agency	Name of Program	Federal Number*	State Number	County Number	Federal Grant/ Contract Number	Agency Pass-Through Grant/ Contract Number	Award Period	Amount Spent FY 2014 Federal	Amount Spent FY 2014 State	Amount Spent FY 2014 County
I. RESEARCH & DEVELOPMENT CLUSTER											
U.S. Department of Defense											
Direct Award	N/A	Military Medical Research and Development	12.420	N/A	N/A	W81XWH-04-1-0851	N/A	September 1, 2004—September 30, 2016	$ 121,025	$ –	$ –
Direct Award	N/A	Air Force Defense Research Sciences Program	12.800	N/A	N/A	FA8650-11-2-6239	N/A	September 22, 2011—March 22, 2015	637,975	–	–
Direct Award	N/A	Air Force Defense Research Sciences Program	12.800	N/A	N/A	FA8650-11-2-6240	N/A	September 29, 2011—May 16, 2014	692,806	–	–
									1,330,781	**–**	**–**
Total U.S. Department of Defense									**1,451,806**	**–**	**–**
U.S. Department of Health & Human Svcs											
Pass-through Award	University of South Florida	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	N/A	N/A	T0014-C06	DTP-1	July 1, 2002—February 6, 2014	94,857	–	–
Total U.S. Department of Health & Human Services									94,857	–	–
TOTAL RESEARCH & DEVELOPMENT CLUSTER									**1,546,663**	**–**	**–**
II. STUDENT FINANCIAL AID CLUSTER											
U.S. Department of Education											
Direct Award	N/A	Federal Pell Grant Program	84.063	N/A	N/A	Not Provided	N/A	July 1, 2013—June 30, 2014	227,183	–	–
Direct Award	N/A	Federal Pell Grant Program	84.063	N/A	N/A	Not Provided	N/A	July 1, 2013—June 30, 2014	316,781	–	–
Direct Award	N/A	Federal Pell Grant Program	84.063	N/A	N/A	Not Provided	N/A	July 1, 2013—June 30, 2014	308,582	–	–
									852,546	–	–
Direct Award	N/A	Federal Direct Student Loans	84.268	N/A	N/A	Not Provided	N/A	July 1, 2013—June 30, 2014	836,171	–	–
Direct Award	N/A	Federal Direct Student Loans	84.268	N/A	N/A	Not Provided	N/A	July 1, 2013—June 30, 2014	1,613,488	–	–
Direct Award	N/A	Federal Direct Student Loans	84.268	N/A	N/A	Not Provided	N/A	July 1, 2013—June 30, 2014	839,559	–	–
									3,289,218	–	–
TOTAL STUDENT FINANCIAL AID CLUSTER									**4,141,764**	**–**	**–**
III. OTHER PROGRAMS:											
U.S. Department of Agriculture											
Pass-through Award	PA Department of Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	N/A	N/A	Not Provided	4100060484	October 1, 2012—September 2013	356,183	–	–
Pass-through Award	PA Department of Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	N/A	N/A	Not Provided	4100064632	October 1, 2013—September 2014	842,593	–	–
									1,198,776	–	–
Pass-through Award	PA Department of Education	Child and Adult Care Food Program	10.558	N/A	N/A	Not Provided	300-02-694-0	October 1, 2012—September 2013	1,236	–	–
Pass-through Award	PA Department of Education	Child and Adult Care Food Program	10.558	N/A	N/A	Not Provided	300-02-694-0	October 1, 2013—September 2014	3,285	–	–
Pass-through Award	PA Department of Education	Child and Adult Care Food Program	10.558	N/A	N/A	Not Provided	300072180	July 1, 2013—June 30, 2014	8,166	–	–
									12,687	–	–
Pass-through Award	PA Department of Education	Summer Food Service Program for Children	10.559	N/A	N/A	Not Provided	903-02-303-9	June 2013—August 2013	14,206	–	–
Pass-through Award	PA Department of Education	Summer Food Service Program for Children	10.559	N/A	N/A	Not Provided	903-02-303-9	June 2014—August 2014	3,762	–	–
									17,968	–	–
Total U.S. Department of Agriculture									1,229,431	–	–

UPMC

Schedule of Expenditures of Federal, State, and County Awards

For the Year Ended June 30, 2014

Agency Providing Award	Pass-Through Agency	Name of Program	Federal Number*	State Number	County Number	Federal Grant/ Contract Number	Agency Pass-Through Grant/ Contract Number	Award Period	Amount Spent FY 2014 Federal	Amount Spent FY 2014 State	Amount Spent FY 2014 County
U.S. Department of Education											
Pass-through Award	Blair County Department of Social Services	Special Education-Grants for Infants and Families	84.181	N/A	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	$ 88,337	$ 293,940	$ 42,475
Total U.S. Department of Education									88,337	293,940	42,475
U.S. Department of Housing & Urban Development											
Pass-through Award	City of Altoona	Emergency Solutions Grant Program	14.231	N/A	N/A	Not Provided	N/A	May 9, 2013—May 8, 2014	18,828	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Supportive Housing Program	14.235	N/A	143402	Not Provided	PA0394B3E001102	December 1, 2012—November 30, 2013	43,383	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Supportive Housing Program	14.235	N/A	143410	Not Provided	PA0266B3E001104	December 1, 2012—November 30, 2013	224,854	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Supportive Housing Program	14.235	N/A	143415	Not Provided	PA0253B3E001103	December 1, 2012—November 30, 2013	29,842	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Supportive Housing Program	14.235	N/A	143417	Not Provided	PA0257B3E001104	December 1, 2012—November 30, 2013	21,421	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Supportive Housing Program	14.235	N/A	143418	Not Provided	PA0263B3E001102	December 1, 2012—November 30, 2013	82,648	–	–
									402,148	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Shelter Plus Care	14.238	N/A	97453	Not Provided	PA0243C3E000800	January 1, 2009—December 31, 2014	427,986	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Shelter Plus Care	14.238	N/A	97775	Not Provided	PA0242C3E000800	January 1, 2009—December 31, 2014	706,278	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Shelter Plus Care	14.238	N/A	144369	Not Provided	PA0593C3E001100	July 1, 2012—June 30, 2017	258,444	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Shelter Plus Care	14.238	N/A	137520	Not Provided	PA0258C3E001104	August 1, 2012—July 31, 2013	7,005	–	–
									1,399,713	–	–
Direct Award	N/A	Continuum of Care Program	14.267	N/A	N/A	PA0186B3E071102	N/A	September 1, 2012—August 31, 2013	6,413	–	–
Direct Award	N/A	Continuum of Care Program	14.267	N/A	N/A	PA0186L3E071203	N/A	September 1, 2013—August 31, 2014	13,628	–	–
Direct Award	N/A	Continuum of Care Program	14.267	N/A	N/A	PA0184L3E071209	N/A	July 1, 2013—June 30, 2014	164,924	–	–
Total Direct									184,965	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Continuum of Care Program	14.267	N/A	153869	Not Provided	PA0258L3E001205	August 1, 2013—July 31, 2014	101,262	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Continuum of Care Program	14.267	N/A	155186	Not Provided	PA0263L3E001203	December 1, 2013—November 30, 2014	169,396	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Continuum of Care Program	14.267	N/A	155190	Not Provided	PA0253L3E001204	December 1, 2013—November 30, 2014	39,416	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Continuum of Care Program	14.267	N/A	155192	Not Provided	PA0257L3E001205	December 1, 2013—November 30, 2014	34,151	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Continuum of Care Program	14.267	N/A	155193	Not Provided	PA0266L3E001205	December 1, 2013—November 30, 2014	368,267	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Continuum of Care Program	14.267	N/A	155449	Not Provided	PA0394L3E001203	December 1, 2013—November 30, 2014	71,029	–	–
Total pass-through Awards									783,521	–	–
									968,486	–	–
Total U.S. Department of Housing & Urban Development									2,789,175	–	–
U.S. Department of Health & Human Services											
Direct Award	N/A	Injury Prevention and Control Research and State and Community Based Programs	93.136	N/A	N/A	1U38CE002353	N/A	September 1, 2013—August 31, 2016	150,683	–	–
Direct Award	N/A	Coordinated Services and Access to Research for Women,	93.153	N/A	N/A	H12HA26266	N/A	August 1, 2013—July 31, 2015	341,967	–	–
Direct Award	N/A	Poison Center Support and Enhancement Grant Program	93.253	N/A	N/A	H4BHS15473	N/A	September 1, 2009—August 31, 2014	270,616	–	–
Direct Award	N/A	Affordable Care Act (ACA) Primary Care Residency	93.510	N/A	N/A	T89HP20750	N/A	September 30, 2010—September 29,	408,267	–	–
Direct Award	N/A	Affordable Care Act (ACA) Primary Care Residency Expansion Program	93.510	N/A	N/A	T89HP20769	N/A	September 30, 2010—September 29, 2015	216,089	–	–
									624,356	–	–

Schedule of Expenditures of Federal, State, and County Awards

For the Year Ended June 30, 2014

Agency Providing Award	Pass-Through Agency	Name of Program	Federal Number*	State Number	County Number	Federal Grant/ Contract Number	Agency Pass-Through Grant/ Contract Number	Award Period	Amount Spent FY 2014 Federal	Amount Spent FY 2014 State	Amount Spent FY 2014 County
Direct Award	N/A	Affordable Care Act Initiative to Reduce Avoidable Hospitalizations	93.621	N/A	N/A	1E1CMS331081-01-0	N/A	September 24, 2012—September 23, 2016	$ 4,840,028	$ –	$ –
Direct Award	N/A	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	N/A	H76HA25775	N/A	July 1, 2013—June 30, 2016	960,231	–	–
Direct Award	N/A	Coal Miners Respiratory Impairment Treatment Clinics and Services	93.965	N/A	N/A	H37RH00064	N/A	July 1, 2012—June 30, 2014	211,795	–	–
Total Direct Awards									7,399,676	–	–
Pass-through Award	University of Pittsburgh	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	N/A	N/A	1U79SM059056	0018076 (408276-6)	July 1, 2013—June 30, 2014	150,000	–	–
Pass-through Award	Blair County Department of Social Services	Projects for Assistance in Transition from Homelessness (PATH)	93.150	N/A	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	42,708	1,391,050	40,892
Pass-through Award	Allegheny Cty Dept of Human Svcs	Mental Health Research Grants	93.242	N/A	N/A	Not Provided	153870	July 1, 2013—June 30, 2014	26,936	–	–
Pass-through Award	University of Pittsburgh	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	N/A	N/A	5U79TI020263	0009647	September 30, 2008—September 29, 2013	12,896	–	–
Pass-through Award	PA Department of Public Welfare	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	4100061364	N/A	Not Provided	4100061364	July 1, 2012—June 30, 2014	432,885	–	–
Pass-through Award	PA Department of Public Welfare	Child Care and Development Block Grant	93.575	N/A	N/A	Not Provided	R02-13-14-0137	July 1, 2013—June 30, 2014	23,882	14,268	–
Pass-through Award	PA Department of Public Welfare	Child Care and Development Block Grant	93.575	N/A	N/A	Not Provided	R02-13-14-0171	July 1, 2013—June 30, 2014	46,196	27,599	–
Pass-through Award	PA Department of Public Welfare	Child Care and Development Block Grant	93.575	N/A	N/A	Not Provided	R02-13-14-0197	July 1, 2013—June 30, 2014	14,833	8,862	–
									84,911	50,729	–
Pass-through Award	PA Department of Public Welfare	The Affordable Care Act – Medicaid Adult Quality Grants	93.609	4100064747	N/A	Not Provided	4100064747	December 21, 2012—December 20, 2014	97,564	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Foster Care_Title IV-E	93.658	Act 148	153478	Not Provided	153658	July 1, 2013—June 30, 2014	423,175	338,785	84,696
Pass-through Award	Allegheny Cty Dept of Human Svcs	Foster Care_Title IV-E	93.658	Act 148	153870	Not Provided	153870	July 1, 2013—June 30, 2014	53,364	107,700	46,936
									476,539	446,485	131,632
Pass-through Award	Blair County Department of Social Services	Social Services Block Grant	93.667	N/A	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	14,261	15,678	3,327
Pass-through Award	Blair County Department of Social Services	Social Services Block Grant	93.667	N/A	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	15,880	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Social Services Block Grant	93.667	N/A	N/A	Not Provided	153870	July 1, 2013—June 30, 2014	73,514	–	–
									103,655	15,678	3,327
Pass-through Award	PA REACH West	ARRA - Health Information Technology Regional Extension Centers Program	93.718	N/A	N/A	Not Provided	90RC0041	November 15, 2010—March 31, 2014	134,220	–	–
Pass-through Award	Commonwealth of Pennsylvania Insurance Department	Children's Health Insurance Program	93.767	4000013229	N/A	Not Provided	4000013229	February 1, 2009—November 30, 2013	13,929,621	6,622,597	–
Pass-through Award	Commonwealth of Pennsylvania Insurance Department	Children's Health Insurance Program	93.767	4000018088	N/A	Not Provided	4000018088	December 1, 2013—November 30, 2016	23,403,149	11,288,741	–
Pass-through Award	PA Department of Public Welfare	Children's Health Insurance Program	93.767	4100055686	N/A	Not Provided	1ZOC30546-01-00	February 22, 2010—February 21, 2015	209,080	–	–
									37,541,850	17,911,338	–

UPMC

Schedule of Expenditures of Federal, State, and County Awards

For the Year Ended June 30, 2014

Agency Providing Award	Pass-Through Agency	Name of Program	Federal Number*	State Number	County Number	Federal Grant/ Contract Number	Agency Pass-Through Grant/ Contract Number	Award Period	Amount Spent FY 2014 Federal	State	County
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100051040	July 1, 2012—June 30, 2013	$ 9,272	$ –	$ –
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100051108	July 1, 2012—June 30, 2013	10,679	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062573	July 1, 2013—June 30, 2014	33,267	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062647	July 1, 2013—June 30, 2014	30,623	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062729	July 1, 2013—June 30, 2014	27,086	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062730	July 1, 2013—June 30, 2014	38,316	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062731	July 1, 2013—June 30, 2014	20,297	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062732	July 1, 2013—June 30, 2014	57,824	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062733	July 1, 2013—June 30, 2014	30,535	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062735	July 1, 2013—June 30, 2014	36,763	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062736	July 1, 2013—June 30, 2014	32,985	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062737	July 1, 2013—June 30, 2014	46,271	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062738	July 1, 2013—June 30, 2014	62,720	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100062739	July 1, 2013—June 30, 2014	34,439	–	–
Pass-through Award	PA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	N/A	N/A	Not Provided	4100063152	July 1, 2013—June 30, 2014	38,248	–	–
									509,325	–	–
Pass-through Award	PA Department of Health	HIV Care Formula Grants	93.917	N/A	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	116,367	–	–
Pass-through Award	Allegheny Cty Dept of Human Svcs	Block Grants for Community Mental Health Services	93.958	APP 10248	153870	Not Provided	153870	July 1, 2013—June 30, 2014	200,413	11,755,966	1,000,000
Pass-through Award	Blair County Dept of Social Services	Block Grants for Community Mental Health Services	93.958	Not Provided	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	84,682	–	–
									285,095	11,755,966	1,000,000
Pass-through Award	Allegheny Cty Dept of Human Svcs	Block Grants for Prevention and Treatment of Substance Abuse	93.959	Various	153870	Not Provided	153870	July 1, 2013—June 30, 2014	883,340	472,492	1,757
Pass-through Award	Blair County	Block Grants for Prevention and Treatment of Substance Abuse	93.959	APP 70-327	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	80,700	–	–
Pass-through Award	Blair County	Block Grants for Prevention and Treatment of Substance Abuse	93.959	APP 10-653	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	–	29,880	–
Pass-through Award	Blair County	Block Grants for Prevention and Treatment of Substance Abuse	93.959	APP 10-262	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	–	3,421	–
Pass-through Award	Blair County	Block Grants for Prevention and Treatment of Substance Abuse	93.959	APP 10-653	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	62,819	80,230	–
									1,026,859	586,023	1,757
Pass-through Award	University of Pittsburgh	Geriatric Education Centers	93.969	N/A	N/A	UB4HP19199	9006589 (119464-1)	July 1, 2010—June 30, 2014	64,753	–	–
Pass-through Award	PA Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	N/A	N/A	Not Provided	4100058888	July 1, 2013—June 30, 2014	146,574	29,723	–
Pass-through Award	PA Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	N/A	N/A	Not Provided	4100058607	July 1, 2013—June 30, 2014	110,244	–	–
Pass-through Award	PA Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	N/A	N/A	Not Provided	4100059224	July 1, 2013—June 30, 2014	228,493	9,176	–
Pass-through Award	PA Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	N/A	N/A	Not Provided	4100059264	July 1, 2013—June 30, 2014	96,063	54,456	–
Pass-through Award	PA Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	N/A	N/A	Not Provided	4100055917	July 1, 2011—June 30, 2014	148,796	–	–
Pass-through Award	PA Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	N/A	N/A	Not Provided	4100059219	July 1, 2013—June 30, 2014	66,667	96,534	–
Pass-through Award	PA Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	N/A	N/A	Not Provided	Not Provided	September 1, 2013—February 28, 2014	1,708	–	–
									798,545	189,889	–
Total pass-through Awards									41,905,108	32,347,158	1,177,608
Total U.S. Department of Health & Human Services									49,304,784	32,347,158	1,177,608
U.S. Department of Justice											
Pass-through Award	Blair County	Edward Byrne Memorial Justice Assistance Grant Program	16.738	DUI	N/A	Not Provided	Not Provided	July 1, 2013—June 30, 2014	508	9,725	–
Total U.S. Department of Justice									508	9,725	–

UPMC

Schedule of Expenditures of Federal, State, and County Awards

For the Year Ended June 30, 2014

Agency Providing Award	Pass-Through Agency	Name of Program	Federal Number*	State Number	County Number	Federal Grant/ Contract Number	Agency Pass-Through Grant/ Contract Number	Award Period	Amount Spent FY 2014 Federal	State	County
U.S. Department of Transportation											
Pass-through Award	PA Department of Transportation	Highway Planning and Construction	20.205	N/A	N/A	Not Provided	Agreement No. 118505	December 30, 2011—July 8, 2014	$ 599,466	$ –	$ –
Total U.S. Department of Transportation									599,466	–	–
TOTAL OTHER PROGRAMS									**54,011,701**	**32,650,823**	**1,220,083**
State and County Awards											
PA Department of Health	N/A	Spina Bifida Grant	N/A	4100059265	N/A	N/A	N/A	July 1, 2012—June 30, 2014	–	93,179	–
PA Department of Health	N/A	Community Primary Care Challenge Grant	N/A	4100059083	N/A	N/A	N/A	July 1, 2012—June 30, 2014	–	99,991	–
PA Department of Health	N/A	Bureau of Emergency Medical Services	N/A	4100065027	N/A	N/A	N/A	July 1, 2013—June 30, 2014	–	348,629	–
PA Department of Health	N/A	Commonwealth Universal Research Enhancement (CURE)	N/A	4100050892	N/A	N/A	N/A	January 1, 2010—December 31, 2013	–	158,056	–
PA Department of Health	N/A	Commonwealth Universal Research Enhancement (CURE)	N/A	4100054844	N/A	N/A	N/A	January 1, 2011—December 31, 2013	–	17,946	–
PA Department of Health	N/A	Commonwealth Universal Research Enhancement (CURE)	N/A	4100057656	N/A	N/A	N/A	January 1, 2012—December 31, 2013	–	4,976	–
PA Department of Public Welfare	N/A	Community-Based Health Care Program	N/A	4100065194	N/A	N/A	N/A	January 1, 2014—June 30, 2015	–	80,572	–
PA Department of Health	Allegheny Cty Dept of Human Svcs	Drug & Alcohol	N/A	11-029/10262	156271	N/A	156271	July 1, 2013—June 30, 2014	–	170,000	–
PA Department of Health	Allegheny Cty Dept of Human Svcs	Social Services Block Grant	N/A	APP 10255	153870	Not Provided	153870	July 1, 2013—June 30, 2014	–	54,062	–
PA Department of Health	Children's Anesthesiology Associates VACHP	Ventilator Assisted Children's Home Program (VACHP)	N/A	4100058370	N/A	N/A	4100058370	July 1, 2013—June 30, 2014	–	152,202	–
PA Department of Public Welfare	N/A	ASERT	N/A	4100016509	N/A	N/A	4100016509	July 1, 2013—June 30, 2014	–	800,000	–
PA Department of Public Welfare	N/A	OCDEL Nurse - Family Partnership Grant	N/A	4100064041	N/A	N/A	N/A	July 1, 2013—June 30, 2014	–	1,247,625	–
PA Department of Public Welfare	Allegheny County	Human Service Block Grant Revenue	N/A	Not Provided	153478	Not Provided	153478	July 1, 2013—June 30, 2014	–	614,790	19,341
PA Department of Public Welfare	Allegheny County Health Choices	Helping Families Raise Healthy Children	N/A	Not Provided	Not Provided	N/A	Not Provided	August 1, 2009—July 31, 2013	–	45,139	–
PA Department of Public Welfare	Blair County Department of Social Services	Mental Health	N/A	Not Provided	Not Provided	N/A	Not Provided	July 1, 2013—June 30, 2014	–	1,410,569	107,846
PA Department of Public Welfare	School District of Pittsburgh	Head Start Supplemental Assistance Program (HSSAP)	N/A	Not Provided	N/A	N/A	OE13318	July 1, 2013—June 30, 2014	–	60,000	–
PA Department of Public Welfare	YWCA Greater Pittsburgh	Professional Development / Training	N/A	4100053384	N/A	N/A	4100053384	July 1, 2013—June 30, 2014	–	5,000	–
PA Higher Education Assist Agency	N/A	PHEAA State Grants	N/A	PHEAA	N/A	N/A	N/A	July 1, 2013—June 30, 2014	–	124,332	–
PA Higher Education Assist Agency	N/A	PHEAA State Grants	N/A	PHEAA	N/A	N/A	N/A	July 1, 2013—June 30, 2014	–	295,706	–
PA Higher Education Assist Agency	N/A	PHEAA State Grants	N/A	PHEAA	N/A	N/A	N/A	July 1, 2013—June 30, 2014	–	123,101	–
PA Higher Education Assist Agency	N/A	State Work-Study Program (SWSP)	N/A	PHEAA	N/A	N/A	N/A	July 1, 2013—June 30, 2014	–	37,507	–
PA Higher Education Assist Agency	N/A	State Work-Study Program (SWSP)	N/A	PHEAA	N/A	N/A	N/A	July 1, 2013—June 30, 2014	–	4,126	–
Allegheny County	Heinz Foundation	Continuum of Care Supportive Services Grant to Support HUD	N/A	N/A	153870	N/A	N/A	July 1, 2013—June 30, 2014	–	–	19,000
Allegheny County	N/A	Alcohol Highway Safety Program	N/A	N/A	146499	N/A	N/A	January 1, 2013—December 31, 2015	–	–	120,000
TOTAL STATE & COUNTY AWARDS									**–**	**5,947,508**	**266,187**
GRAND TOTAL - FEDERAL, STATE & COUNTY AWARDS									**$ 59,700,128**	**$ 38,598,331**	**$ 1,486,270**

* *If the Federal program is not listed in the CFDA or has no CFDA number, the number shown is the Federal Agency's two-digit prefix, followed by the contract or grant number from the Federal Agency (up to 50 digits, letters or characters).*

1410-1344112

UPMC

Notes to Schedule of Expenditures of Federal, State, and County Awards

June 30, 2014

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal, State, and County Awards (the Schedule) includes the federal, state, and county grant expenditures of UPMC and subsidiaries (UPMC).

The Schedule has been prepared on the accrual basis of accounting with the exception of capital expenditures, which are recognized on a cash basis. Expenditures are recorded for program activities in accordance with the terms of the applicable award.

Note 2. Categorization of Expenditures

The Schedule reflects government expenditures for all individual grants, which were active during the year. The categorization of federal expenditures by program included in the Schedule is based on the Catalog of Federal Domestic Assistance (CFDA).

Note 3. Subrecipients

Of the federal expenditures presented in the Schedule, UPMC provided federal awards to subrecipients as follows:

Name of Program	Federal Number	Amount Provided to Subrecipients
Military Medical Research & Development	12.420	$ 80,475
Air Force Defense Research Sciences Program	12.800	87,043
Affordable Care Act Initiative to Reduce Avoidable Hospitalizations among Nursing Facility Residents	93.621	729,620
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	108,548
Coal Miners Respiratory Impairment Treatment Clinics and Services	93.965	120,460
		$ 1,126,146

Note 4. Federal Direct Student Loans

UPMC acts as an intermediary for students receiving Federal Direct Student Loans (CFDA 84.268), which includes Direct Loans and Parent's Loans for Undergraduate Students from the federal government. The federal government is responsible for billings and collections of the loans. UPMC assists the federal government by processing the applications and applying funds to student accounts from the federal government. Since this program is administered by the federal government, new loans made in the fiscal year ended June 30, 2014, related to Federal Direct Loans are considered current year federal expenditures, whereas the outstanding loan balances are not.

Note 5. Children's Health Insurance Program

Under CFDA 93.767, Children's Health Insurance Program, UPMC received the following funds from the Commonwealth of Pennsylvania through the Pennsylvania Insurance Department for the period July 1, 2013 through June 30, 2014, as follows:

Invoice for Premiums Incurred in	Federal	State	Total	Date Funds Received by UPMC
July 2013	$ 2,691,541	$ 1,266,607	$ 3,958,148	09/11/2013
August 2013	2,759,804	1,298,731	4,058,535	09/04/2013
September 2013	2,745,731	1,292,109	4,037,840	10/15/2013
October 2013	2,794,517	1,347,963	4,142,480	11/12/2013
November 2013	2,938,029	1,417,188	4,355,217	12/19/2013
December 2013	3,333,217	1,607,810	4,941,027	01/13/2014
January 2014	3,314,505	1,598,784	4,913,289	02/27/2014
February 2014	3,396,785	1,638,473	5,035,258	03/10/2014
March 2014	3,367,509	1,624,351	4,991,860	04/28/2014
April 2014	3,463,933	1,670,863	5,134,796	05/14/2014
May 2014	3,279,976	1,582,129	4,862,105	06/23/2014
June 2014	3,247,225	1,566,331	4,813,556	07/10/2014
Total premiums received	$ 37,332,772	$ 17,911,339	$ 55,244,110	

UPMC

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

Part I – Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued (unmodified, qualified, adverse or disclaimer):	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		**yes**	X	**no**
Significant deficiency(ies) identified?	X	**yes**		**none reported**
Noncompliance material to financial statements noted?		**yes**	X	**no**

Federal Awards Section

Internal control over major federal programs:				
Material weakness(es) identified?		**yes**	X	**no**
Significant deficiency(ies) identified?		**yes**	X	**none reported**
Type of auditor's report issued on compliance for major programs (unmodified, qualified, adverse or disclaimer):	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?		**yes**	X	**no**

Part I – Summary of Auditor's Results (continued)

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
84.063, 84.268	Student Financial Aid Cluster
93.621	Affordable Care Act Initiative to Reduce Avoidable Hospitalizations among Nursing Facility Residents
93.767	Children's Health Insurance Program

Dollar threshold used to distinguish between Type A and Type B programs: $1,791,004

Auditee qualified as low-risk auditee? ______ **yes** __X__ **no**

Part II – Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Finding 2014-001

Criteria or Specific Requirement:

Effective information technology general controls (ITGC) are required over key financial statement applications.

Condition and Context:

Epic programmers maintain access to the Cache prompt enabling them the ability to develop and migrate changes to the production environment. This level of access constitutes a segregation of duties violation. Additionally, system limitations exist that compromise the completeness and accuracy of the daily Cache report that are provided to management for review. There is no documentation supporting authorization, testing, and approval of the changes for implementation into production. Further, there is no independent verification of the classification of the changes implemented into production to determine if the appropriate change control documentation and approvals were followed in accordance with policies and procedures. The accounts impacted by this issue are patient revenue and patient accounts receivable at the UPMC's Physician Practices division.

Effect:

Program changes may be made and put into production that are not approved.

Cause:

The design of the IT general controls for change management was ineffective.

Part II – Financial Statement Findings Section (continued)

Recommendation:

We recommend that UPMC explore implementing the upgrades/patches to address the change management issues within the Epic system. In the absence of an upgrade/patch, we recommend the Company perform transaction level testing to validate the data integrity within reports generated in the Epic system. We recommend that commentary for the changes in the Cache system be required to be documented and that evidence of management's review is captured in the daily Cache monitoring reports (i.e., sign-offs, follow-up of activity, etc.). In addition, management should perform a precise review to challenge and determine the adequacy of the activities performed at the Cache prompt. We recommend management perform independent verification of the classification of the changes implemented into production to determine if the appropriate change control documentation and approvals were followed in accordance with policies and procedures.

Views of Responsible Officials and Planned Corrective Actions.

Management has worked diligently to rectify the control deficiency through the creation of new controls and tighter restrictions on existing controls to mitigate the risk related to the deficiency, as well as begin the process of modifying the IT environment to eliminate the deficiency altogether.

After a patient encounter, the physician and/or the coding personnel enter the encounter into the EpiCare charge capture program. While this is a system related to Epic, it is not a direct sub-system of Epic and for control purposes be considered a unique system. The charge capture process is under a strict and heavily monitored controls process as outlined by the charge capture subset of narratives. Briefly summarized, coders perform routine reviews to ensure EpiCare appropriately reflects daily encounters and performed procedures, which is among the most prominent, but not only, controls surrounding the on-site capture of charges.

The EpiCare system is then interfaced into Epic and is reconciled routinely to ensure that the interface has appropriately captured all encounters, codes, etc. Through this reconciliation, management is confident that all encounters and procedures are captured into the Epic system without any opportunity for manual manipulation or alteration. Epic is then periodically interfaced to PeopleSoft GL to record all revenues, receivables, etc. At the point of each interface, management is reconciling the Epic system to PeopleSoft to ensure that the interface effectively captured all information within Epic.

Part II – Financial Statement Findings Section (continued)

In December 2014, the newest version of the Epic system was installed. Among the new capabilities of the system will be the ability to monitor and document changes made within the operating environment which can be reviewed by management. This detection control will allow any inappropriate changes to be reversed and preserve the integrity of the system without the need for the mitigating controls.

In addition to the above, routine monitoring occurs within the Epic system of aging, billing reports, etc. While the risk is that inappropriate manipulation within the system has occurred, given the change management issues, the AR aging reports that are used are "canned" reports within the system. Any erroneous encounters, whether through the charge capture process or fraudulent input, would therefore be shown on the canned aging report, which is regularly monitored and scrutinized.

Part III – Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 Section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Summary Schedule of Prior Audit Findings as of June 30, 2014

Finding 2013-001: Affordable Care Act (ACA) Grants for School-Based Health Centers Capital Program (CFDA 93.501)

Cash Management and Financial Reporting – Lack of Review and Approval of Cash Draws and Financial Reports

The finding was remediated with process and control implementation in FY2014.

Finding 2013-002: Shelter Plus Care (CFDA 14.238)

Special Tests and Provisions – Rent Reasonableness Calculations

The finding was remediated with process and control implementation in FY2014.

Finding 2013-003: Shelter Plus Care (CFDA 14.238)

Reporting – Lack of Review and Approval of Nonfinancial Reporting

The finding was remediated with process and control implementation in FY2014.

Finding 2013-004: Shelter Plus Care (CFDA 14.238)

Eligibility – Insufficient Review, Approval, and Documentation of Eligibility Determinations

The finding was remediated with process and control implementation in FY2014.

Finding 2013-005: Shelter Plus Care (CFDA 14.238)

Allowability and Matching – Insufficient Review, Approval, and Documentation of Administrative Costs Charged to the Award

The finding was remediated with process and control implementation in FY2014.

Finding 2013-006: Affordable Care Act Initiative to Reduce Avoidable Hospitalizations among Nursing Facility Residents (CFDA 93.621)

Allowable Costs – Lack of Review and Approval of Personnel Expenses

The finding was remediated with process and control implementation in FY2014.

Finding 2013-007: Affordable Care Act Initiative to Reduce Avoidable Hospitalizations among Nursing Facility Residents (CFDA 93.621)

Allowable Costs – Lack of Review and Approval of Fringe Benefits Assumptions

The finding was remediated with process and control implementation in FY2014.

Finding 2013-008: Affordable Care Act Initiative to Reduce Avoidable Hospitalizations among Nursing Facility Residents (CFDA 93.621)

Eligibility – Insufficient Review and Approval Eligibility Determination Data Inputs

The finding was remediated with process and control implementation in FY2014.

Finding 2013-009: Affordable Care Act Initiative to Reduce Avoidable Hospitalizations among Nursing Facility Residents (CFDA 93.621)

Reporting – Timely subaward reporting under the Federal Funding Accountability and Transparency Act (FFATA)

The finding was remediated with process and control implementation in FY2014.

Finding 2013-010: Children's Health Insurance Program (CFDA 93.767)

Special Tests and Provisions – Transfer of Individuals' Files Not Reviewed in Accordance With Children's Health Insurance Program Policy and Procedures Manual

The finding was remediated in FY 2014

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