UPMC Quarterly Disclosure

For the Period Ended June 30, 2016

UPMC LIFE CHANGING MEDICINE

UPMC QUARTERLY DISCLOSURE

FOR THE PERIOD ENDED JUNE 30, 2016

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The following financial data is derived from both the June 30, 2016 audited consolidated financial statements of UPMC and the unaudited interim consolidated financial statements of UPMC. The interim financial data includes all adjustments consisting of a normal recurring nature that UPMC considers necessary for a fair presentation of its financial position and the results of operations for these periods. Operating and financial results reported herein are not necessarily indicative of the results that may be expected for any future periods.

The information contained herein is being filed by UPMC for the purpose of complying with its obligations under Continuing Disclosure Agreements entered into in connection with the issuance of the series of bonds listed herein and disclosure and compliance obligations in connection with various banking arrangements. The information contained herein is as of June 30, 2016. Digital Assurance Certification, L.L.C., as Dissemination Agent, has not participated in the preparation of this Unaudited Quarterly Disclosure, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.

UPMC LIFE CHANGING MEDICINE

INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2016

UPMC, doing business as the University of Pittsburgh Medical Center, is one of the world's leading Integrated Delivery and Financing Systems ("IDFS"). UPMC is based in Pittsburgh, Pennsylvania and primarily serves residents of western Pennsylvania. We also draw patients for highly specialized services from across the nation and around the world. With more than 20 hospitals and more than 500 clinical locations, UPMC comprises one of the largest nonprofit health systems in the United States. UPMC has three major operating components: Health Services, Insurance Services, and UPMC Enterprises.

We are committed to providing the communities that our hospitals, outpatient centers and other health care facilities serve, as well as our insurance members, with high quality, cost-effective health care while continuing to grow our business and execute on our mission to provide Life Changing Medicine. As the stewards of UPMC's community assets, we are guided by our core values of integrity, excellence, respect and teamwork. These values govern the manner in which we serve our communities and are embedded in the execution and delivery of Life Changing Medicine.

UPMC continues to make significant investments in equipment, technology, education and operational strategies designed to improve clinical quality at our hospitals and outpatient centers. As a result of our efforts, UPMC is currently ranked number 12 on the *U.S. News & World Report* Honor Roll of "America's Best Hospitals." Investments in our operations and continued capital improvements are expected to become increasingly important as the competitive environment of the western Pennsylvania market and changes to health care nationally continue to progress and change the landscape of patient care and reimbursement. We build new facilities, make strategic acquisitions, and enter into joint venture arrangements or affiliations with health care businesses — in each case in communities where we believe our mission can be effectively utilized to improve the overall health of those communities.

By continually evolving and refining UPMC's world-class financial processes, we focus on achieving optimal financial results that support the continued development of our organization, as well as ongoing investment in the future of western Pennsylvania. We are committed to achieving these objectives with unyielding commitments to transparency in reporting and disclosure, enterprise-wide integration, and ongoing process improvement.

The purpose of this section, Management's Discussion and Analysis ("MD&A"), is to provide a narrative explanation of our financial statements that enhances our overall financial disclosures, to provide the context within which our financial information may be analyzed, and to provide information about the quality of, and potential variability of, our financial condition, results of operations and cash flows.

Unless otherwise indicated, all financial and statistical information included herein relates to our continuing operations, with dollar amounts expressed in thousands (except for statistical information). MD&A should be read in conjunction with the accompanying consolidated financial statements.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Twelve Months Ended June 30	**2016**	2015
Operating revenues	**$ 12,848**	$ 12,147
Operating income	**$ 310**	$ 384
Operating margin	**2.4 %**	3.2%
Operating margin (including income tax and interest expense)	**1.3 %**	2.3%
(Loss) gain from investing and financing activities	**$ (153)**	$ 20
Excess of revenues over expenses	**$ 134**	$ 417
Operating EBIDA	**$ 767**	$ 849
Capital expenditures	**$ 384**	$ 412
Reinvestment ratio	**0.84**	0.88

Selected Other Information as of	**June 30, 2016**	June 30, 2015
Total cash and investments	**$ 5,096**	$ 4,864
Unrestricted cash and investments	**$ 4,325**	$ 4,100
Unrestricted cash and investments over long-term debt	**$ 1,380**	$ 1,129
Days of cash on hand	**130**	132
Days in net accounts receivable	**49**	52
Average age of plant	**10.1**	9.4

Operating revenues for the twelve months ended June 30, 2016 increased $701 million, or 5.8%, as compared to the twelve months ended June 30, 2015, primarily due to growth in Insurance Services. Operating income for the twelve months ended June 30, 2016 decreased $74 million over the same period in the prior fiscal year. Prior year results included a $233 million one-time gain resulting from Evolent Health's initial public offering ("IPO") and the concurrent election of the fair value method of accounting for UPMC's investment in Evolent. Operating earnings before interest, depreciation and amortization totaled $767 million, and excess of revenues over expenses was $134 million. As of June 30, 2016, UPMC had nearly $5.1 billion of cash and investments.

For the twelve months ended June 30, 2016:

- Total admissions and observation cases remained consistent with prior year.
- Hospital outpatient revenue per workday increased 3% compared to the prior year.
- Physician service revenue per weekday increased 2% from the comparable period in the prior year, and
- Enrollment in UPMC's Insurance Services grew 10% to nearly 3.0 million members as of June 30, 2016.

UPMC's loss from investing and financing activities for the twelve months ended June 30, 2016 was $153 million. UPMC made no material changes to its asset allocation policies during the quarter and continues to have a long-term perspective with regard to its investment activities.

In August 2016, for the 17th year, UPMC was named to the *U.S. News & World Report* Honor Roll of "America's Best Hospitals," weeks after *U.S. News & World Report* named Children's Hospital of Pittsburgh of UPMC to its Honor Roll as one of "America's Best Children's Hospitals" for the 7th consecutive year. UPMC earned 12th position on the Honor Roll, which includes only 20 hospitals. UPMC is ranked among the top 10 hospitals in four specialties. Children's earned 7th place on the Best Children's Hospitals Honor Roll, ranking in nine of the 10 pediatrics specialty areas.

In May 2016, Susquehanna Health and UPMC finalized a letter of intent to pursue an affiliation to expand health care services and advance quality care for the people of northcentral Pennsylvania. Susquehanna Health is a four-hospital, 342-bed system based in Williamsport, Pa., with $543 million in revenue and $785 million in total assets as of June 30, 2015. Following a year-long thoughtful, mission-focused process to pursue partnership options, Susquehanna is now holding exclusive, detailed discussions with UPMC about how the two health systems can work together. Both organizations are conducting due diligence and are working towards the completion of a definitive agreement to affiliate.

In December 2015, UPMC and WCA Hospital in Jamestown, NY, announced a formal affiliation agreement to integrate WCA Hospital into the UPMC network to expand access to quality healthcare services and resources in the Jamestown region. WCA Hospital, with 317 licensed beds, is Southwestern New York's largest not-for-profit healthcare provider and is the first U.S. hospital outside of Pennsylvania to sign an affiliation agreement with UPMC. Since forming a strategic affiliation agreement in August 2012, WCA Hospital and UPMC Hamot have experienced a long-standing mutually beneficial collaboration. UPMC has committed to invest at least $25 million over the next 10 years to continue supporting improved care coordination and delivery of services, increasing patient satisfaction, assisting with recruitment and retention of outstanding physicians, and upgrading facilities, programs, and infrastructure, including information technology and electronic medical records capabilities. UPMC has also agreed to relieve WCA's debt and assume its pension obligations, freeing up significant additional monies for WCA development. The affiliation agreement is contingent upon the completion of regulatory approvals, including final New York State Certificate of Need approval. UPMC and WCA anticipate finalizing the transaction before the end of 2016.

In February 2015, the Boards of Directors of UPMC and Jameson Health System in New Castle, Pa., ("Jameson"), signed a definitive agreement to merge Jameson into UPMC. Jameson, UPMC and UPMC Horizon are collaborating to develop a plan that will ensure growth and continued access to quality health care in Lawrence and Mercer counties. UPMC plans to invest $75 million to develop services and facilities in Lawrence County with an additional $10 million earmarked for strategic physician recruitment. UPMC has also agreed to assume Jameson's debt and pension obligations. Following a lengthy regulatory approval process and arbitration that was part of a court proceeding, the Federal District Court on March 22, 2016 approved the Consent Decree. This Consent Decree was agreed upon and jointly submitted for approval by UPMC, Jameson and the Pennsylvania Attorney General's Office. The parties completed the merger on May 1, 2016, creating UPMC Jameson.

In June 2016, UPMC broke ground on the new Outpatient Center in Hampton Township that will feature comprehensive care for children and adults, various rehabilitation therapies, primary care, advanced imaging services, diagnostic testing, and after-hours care for adults and children. The approximately $20 million facility, based on the medical mall concept of convenient access to primary care services for patients in their own communities, is set to open in September 2017. Once constructed, the 44,000-square-foot center will be LEED Certified.

In May 2016, UPMC and First Chengmei Medical Industry Group ("FCMG") of Haikou, China signed an agreement to collaborate on the development of health care services to benefit the people of Hainan Island, the southernmost province in China. UPMC is providing clinical training opportunities for FCMG physicians and nurses, both in Haikou and Pittsburgh, with an initial focus on medical, radiation and surgical oncology. In addition, a team of UPMC experts will visit Haikou to observe clinical practices and offer recommendations on hospital operations, including such areas as information technology, supply chain, patient satisfaction and quality. FCMG, a subsidiary of First Investment Holding Group, solely owns three hospitals in the greater Haikou region, including the Hainan Cancer Hospital, an Orthopaedics Hospital and the newly built Chengmei International

Medical Center. First Investment Holding Group is one of the oldest and most renowned local enterprises, founded when the Province of Hainan was established in 1988. This is UPMC's third partnership in China. In addition to its work with KingMed Diagnostics in Guangzhou for the provision of second-opinion telepathology services, UPMC helped to develop and supports the operation of the Xiangya International Medical Center in Changsha.

In July 2016, UPMC was named one of the nation's "Most Wired" health systems by Hospitals & Health Networks, the journal of the American Hospital Association, continuing the health system's 18-year inclusion on the annual list. Although UPMC has achieved "Most Wired" recognition for 18 consecutive years, the recently added "Advanced" designation is based on stricter verification procedures and advanced levels of performance across four focus areas: infrastructure, business and administrative management, clinical quality and safety, and clinical integration. The survey measures information technology use and adoption among hospitals nationwide and examines how they are leveraging technology to improve performance and value for patients. The 2016 results are based on a survey completed by almost 750 participants, representing 2,200 hospitals, or almost 40 percent of hospitals nationwide. Over the past five years, UPMC has invested more than $1.5 billion in technology to support clinical excellence and administrative efficiency.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Twelve Months Ended June 30, 2016 *(in millions)*

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue less provision for bad debts	$ 7,233	$ –	$ (1,564)	$ 5,669
Insurance enrollment revenue	–	6,141	–	6,141
Other revenue	838	312	(112)	1,038
Total operating revenues	$ 8,071	$ 6,453	$ (1,676)	$12,848
Expenses:				
Salaries, professional fees and benefits	$ 4,319	$ 261	$ (27)	$ 4,553
Supplies, purchased services and general	3,109	6,068	(1,649)	7,528
Depreciation and amortization	449	8	–	457
Total operating expenses	7,877	6,337	(1,676)	12,538
Operating income	$ 194	$ 116	–	$ 310
Operating margin %	2.4%	1.8%	–	2.4%
Operating margin % (including income tax and interest expense)	1.0%	1.4%	–	1.3%
Operating EBIDA	$ 643	$ 124	–	$ 767
Operating EBIDA %	8.0%	1.9%	–	6.0%

Twelve Months Ended June 30, 2015 *(in millions)*

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue less provision for bad debts	$ 7,081	$ –	$ (1,430)	$ 5,651
Insurance enrollment revenue	–	5,315	–	5,315
Other revenue	934	366	(119)	1,181
Total operating revenues	$ 8,015	$ 5,681	$ (1,549)	$ 12,147
Expenses:				
Salaries, professional fees and benefits	$ 4,262	$ 234	$ (26)	$ 4,470
Supplies, purchased services and general	3,038	5,313	(1,523)	6,828
Depreciation and amortization	455	10	–	465
Total operating expenses	7,755	5,557	(1,549)	11,763
Operating income	$ 260	$ 124	–	$ 384
Operating margin %	3.2%	2.2%		3.2%
Operating margin % (including income tax and interest expense)	1.8%	2.4%		2.3%
Operating EBIDA	$ 715	$ 134		$ 849
Operating EBIDA %	8.9%	2.4%		7.0%

Health Services

UPMC Health Services include a comprehensive array of clinical capabilities consisting of hospitals, specialty service lines (e.g., transplantation services, woman care, behavioral health, pediatrics, cancer care and rehabilitation services), contract services (emergency medicine, pharmacy and laboratory) and more than 3,500 employed physicians with associated practices. Also included within Health Services are supporting foundations and UPMC's captive insurance programs. Hospital activity is monitored in four distinct groups: (i) academic hospitals that provide a comprehensive array of clinical services that include the specialty service lines listed above and serve as the primary academic and teaching centers for UPMC and are located in Pittsburgh, Pa.; (ii) community hospitals that provide core clinical services mainly to the suburban Pittsburgh, greater Erie, and the greater Altoona populations of Pennsylvania; (iii) regional hospitals that provide core clinical services to certain other areas of western Pennsylvania; and (iv) pre- and post-acute care capabilities that include: UPMC HomeCare, a network of home health services, and UPMC Senior Communities, the facilities of which provide a complete network of senior living capabilities in greater Pittsburgh and surrounding counties.

Health Services revenue of $8.1 billion increased $56 million from prior year due primarily to inflationary rate increases. Operating income of $194 million decreased $66 million from prior year. This is primarily due to the prior year including a $111 million one-time gain related to the Evolent IPO, offset by cost productivity improvements in the current year. The Health Services division also includes its international ventures which aims to bring new revenue streams into western Pennsylvania. International ventures currently include ISMETT, a transplant and specialty surgery hospital in Palermo, Italy, that has performed more than 1,600 transplants since its founding in 1999, a cancer center located in Ireland, a contract to provide remote second-opinion pathology consultations for patients in China and Singapore, a national oncology treatment and research center in Kazakhstan, as well as the Advanced Radiosurgery Center of Excellence at San Pietro FBF Hospital in Rome.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have nearly 3.0 million members as of June 30, 2016. UPMC Health Plan is a health maintenance organization ("HMO") offering coverage for commercial and Medicare members. UPMC for You is also an HMO, which is engaged in providing coverage to Medical Assistance & Medicare Special Needs Plan beneficiaries. UPMC Health Network offers preferred provider organization ("PPO") plan designs to serve Medicare beneficiaries. UPMC Health Options offers PPO plan designs to serve commercial beneficiaries. UPMC for Life is a Medicare product line offered by various companies within the Insurance Services division. UPMC Work Partners provides fully insured workers' compensation, and integrated workers' compensation and disability services to employers. Community Care Behavioral Health Organization ("Community Care") is a state-licensed,risk-bearing PPO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in 39 Pennsylvania counties, including Allegheny County.

Insurance Services revenues of $6.5 billion increased $772 million from prior year primarily as a result of increased membership. Insurance Services experienced an operating income decrease of $8 million from prior year, which benefited from a $122 million one-time gain related to the Evolent IPO. Current year income is driven by increased membership and improved underwriting margins, partially offset by higher administrative expenses.

UPMC Enterprises

The goal of UPMC Enterprises is to leverage UPMC's integrated delivery and financing system capabilities to generate new revenue streams. This is accomplished by fostering new ideas for improvement in the delivery of health care, pursuing commercialization opportunities of smart technologies and developing strategic partnerships with industry leaders. These ventures both support UPMC's core mission and help to stimulate the economy of western Pennsylvania.

UPMC Enterprises manages a portfolio that includes various internally-focused initiatives and numerous operating companies with commercially-available products and services directed toward the improvement of the delivery of health care. Unlike the Health Services and Insurance Services divisions, UPMC Enterprises' results are classified as investing and financing activity in the Statements of Operations and Changes in Net Assets, consistent with the long-term nature of developing and commercializing technology-enabled initiatives. UPMC Enterprises' net spend of $71 million increased $26 million versus prior year due to additional product development activity and portfolio company results.

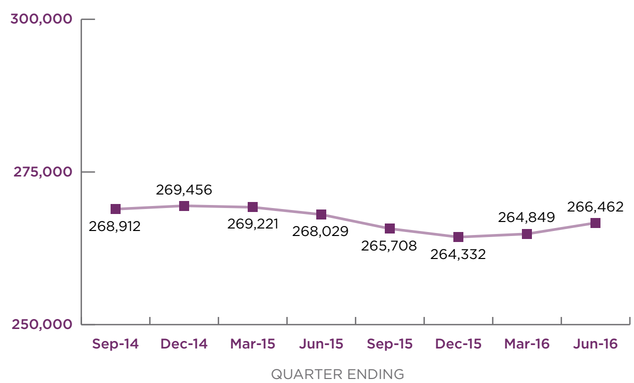
REVENUE METRICS – HEALTH SERVICES

Medical-Surgical Admissions and Observation Visits

Inpatient activity as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the twelve months ended June 30, 2016 decreased 1% compared to the same period in 2015.

For the Twelve Months Ended June 30			
(in thousands)	**2016**	Change	2015
Academic	**132.5**	(2%)	134.8
Community	**88.6**	1%	88.1
Regional	**45.3**	0%	45.1
Total	**266.4**	(1%)	268.0

Trailing Twelve-Months



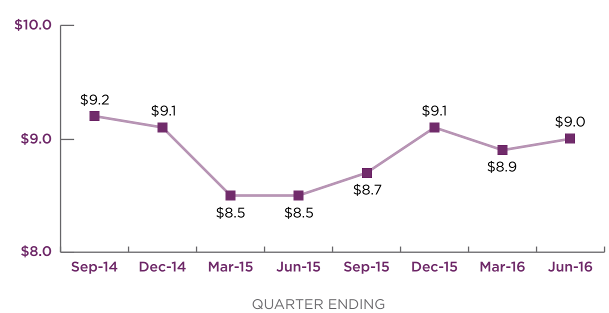
Outpatient Revenue per Workday

UPMC's outpatient activity for the twelve months ended June 30, 2016 as measured by average revenue per workday increased 3% compared to the same period in 2015. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Twelve Months Ended June 30			
(in thousands)	**2016**	Change	2015*
Academic	**$ 5,236**	0%	$ 5,218
Community	**2,109**	(3%)	2,167
Regional	**1,703**	19%	1,429
Total	**$ 9,048**	3%	$ 8,814

** Reclasses were made to prior year totals to conform to current year presentation*

Quarterly Average (in millions)



REVENUE METRICS – HEALTH SERVICES (CONTINUED)

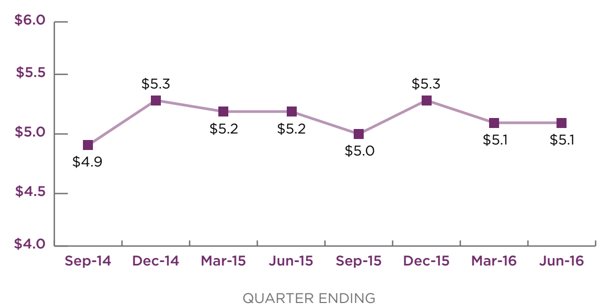
Physician Service Revenue per Weekday

UPMC's physician activity for the twelve months ended June 30, 2016 as measured by average revenue per weekday increased 2% from the comparable period in 2015. Physician services activity is measured on a weekday basis.

For the Twelve Months Ended June 30			
(in thousands)	**2016**	Change	2015*
Academic	**$ 2,937**	2%	$ 2,884
Community	**2,242**	3%	2,169
Total	**$ 5,179**	2%	$ 5,053

** Reclasses were made to prior year totals to conform to current year presentation*

Quarterly Average (in millions)



Sources of Patient Service Revenue

The gross patient service revenues of UPMC are derived from third-party payers which reimburse or pay UPMC for the services it provides to patients covered by such payers. Third-party payers include the federal Medicare Program, the federal and state Medical Assistance Program ("Medicaid"), Highmark Blue Cross Blue Shield ("Highmark") and other third-party insurers such as health maintenance organizations and preferred provider organizations. The following table is a summary of the percentage of the subsidiary hospitals' gross patient service revenue by payer.

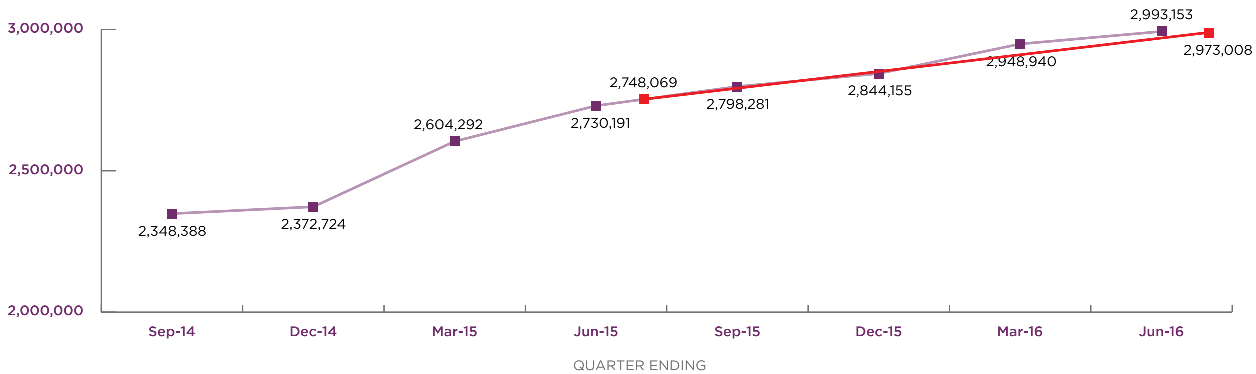
	Twelve Months Ended June 30	
	2016	2015*
Medicare	**45%**	45%
Medicaid	**18%**	18%
Highmark Commercial	**10%**	15%
UPMC Insurance Services Commercial	**12%**	10%
National Insurers Commercial	**9%**	7%
Other	**6%**	5%
Total	**100%**	100%

** Reclasses were made to prior year totals to conform to current year presentation*

OPERATING METRICS - INSURANCE SERVICES

Membership

Membership in the UPMC Insurance Services Division increased to 2,973,008 as of July 1, 2016, an increase of nearly 225,000 members versus prior year.

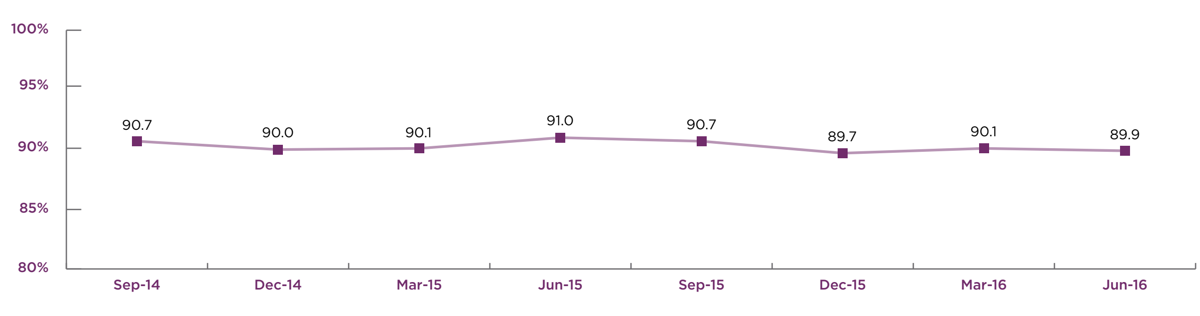


As of	**July 1, 2016**	July 1, 2015	**June 30, 2016**	June 30, 2015
Commercial Health	**628,223**	565,393	**625,947**	564,190
Medicare	**155,725**	144,614	**155,696**	143,941
Medicaid	**393,886**	341,656	**392,281**	336,340
Sub-Total Health Products	**1,177,834**	1,051,663	**1,173,924**	1,044,471
Behavioral Health	**944,046**	840,471	**953,513**	841,003
Sub-Total Health Products	**2,121,880**	1,892,134	**2,127,437**	1,885,474
Work Partners and Life Solutions	**437,187**	444,083	**452,798**	435,202
Ancillary Products and Other	**222,788**	203,619	**221,104**	202,585
Evolent	**191,153**	208,233	**191,814**	206,930
Total Membership	**2,973,008**	2,748,069	**2,993,153**	2,730,191

Medical Expense Ratio

UPMC Insurance Services Medical Expense Ratio remained stable as medical expenses trended consistently with premiums.

Trailing Twelve-Months



KEY FINANCIAL INDICATORS

(Dollars in millions)

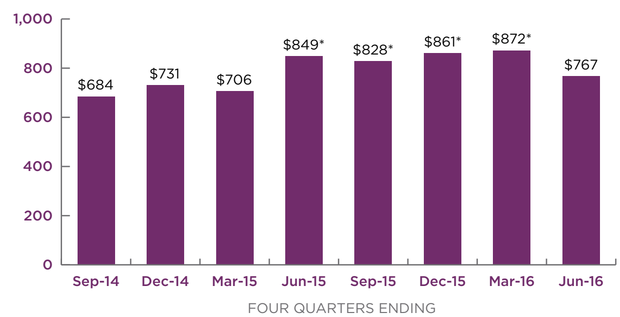
Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the twelve months ended June 30, 2016 decreased as compared to the twelve months ended June 30, 2015.

For the Twelve Months Ended June 30	2016	Change	2015
Operating Income	**$ 310**	(19%)	$ 384
Depreciation and Amortization	**457**	(2%)	465
Operating EBIDA	**$ 767**	(10%)	$ 849

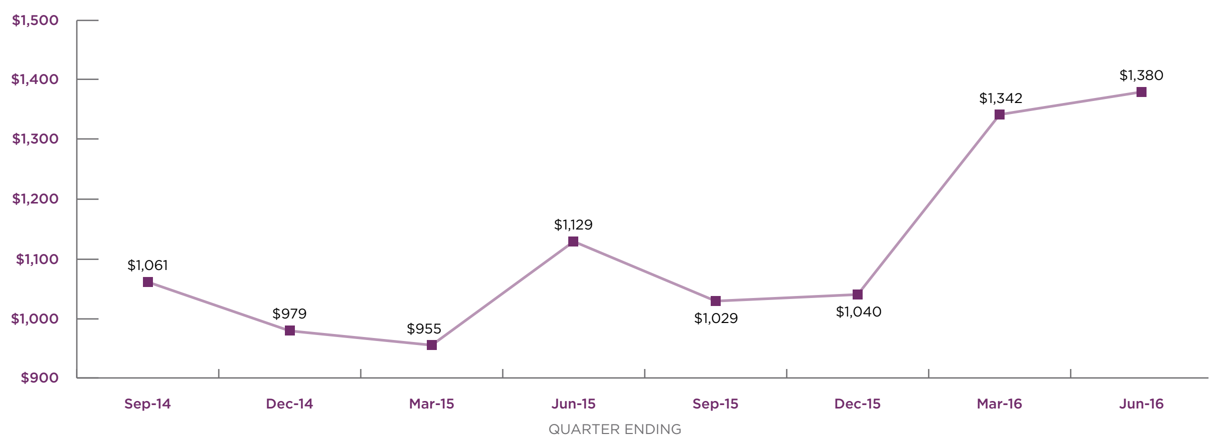
** Includes $233M one-time gain related to Evolent Health's IPO.*

Trailing Twelve Months EBIDA



Unrestricted Cash and Investments Over Long Term Debt

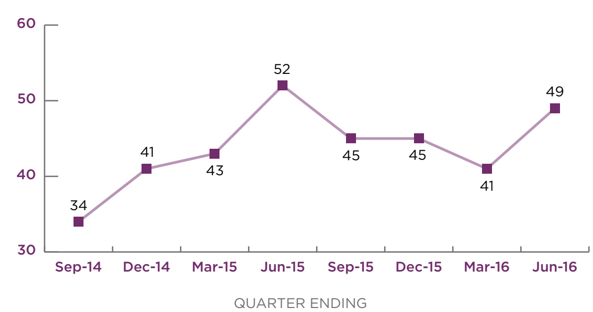
Unrestricted cash to long term debt increased by $251 million as compared to June 2015.



Days in Net Accounts Receivable

Delayed payments from the state of Pennsylvania's Medicaid program is driving increased Days in Accounts Receivable for Insurance Services. Cash receipts from Highmark related to disputed oncology billings decreased Days in Accounts Receivable for Health Services.

By Division as of June 30	2016 Balance	Days	
		2016	2015
Health Services	$ 883	49	62
Insurance Services	895	48	42
Consolidated	$ 1,778	49	52

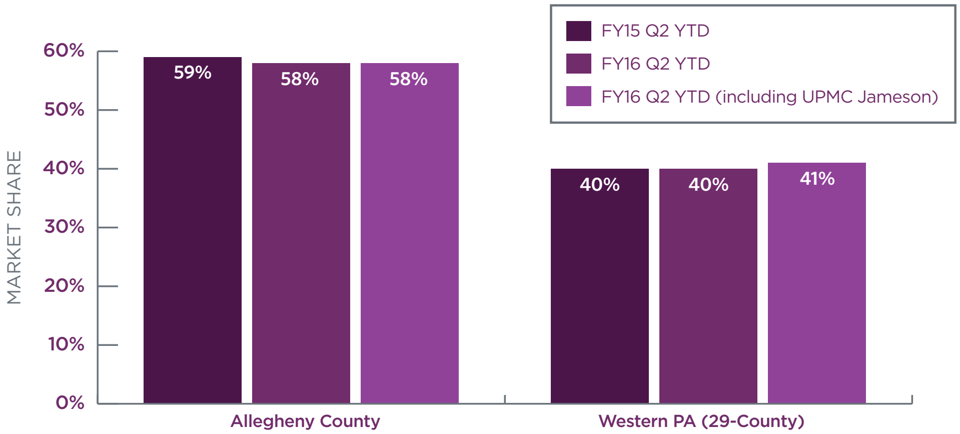


Market Share

The chart below shows the change in UPMC's estimated inpatient market share for the first two quarters of fiscal years 2015 and 2016 (July 1 through December 31), by service area(1). For fiscal year 2016, estimated market share is displayed both excluding and including discharges for UPMC Jameson(2). This is the most recent market share data currently available.

UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE(3)

FY15 Q2 YTD vs. FY16 Q2 YTD



(1) *UPMC's two service areas are (1) Allegheny County, and (2) a 29-county region which also includes Armstrong, Beaver, Bedford, Blair, Butler, Cambria, Cameron, Centre, Clarion, Clearfield, Crawford, Elk, Erie, Fayette, Forest, Greene, Huntingdon, Indiana, Jefferson, Lawrence, McKean, Mercer, Potter, Somerset, Venango, Warren, Washington and Westmoreland counties.*

(2) *Jameson merged with UPMC on May 1, 2016.*

(3) *Inpatient market share excludes psychiatry and substance abuse discharges.*

ASSET AND LIABILITY MANAGEMENT

During the twelve months ended June 30, 2016, UPMC's investment portfolio returned (1.3%). As of June 30, 2016, UPMC utilized 211 external investment managers, including 42 traditional managers, 22 hedge fund managers and 147 private equity managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of (1.3%), 5.4% and 5.2% for the trailing one-, three- and five-year periods. As of June 30, 2016, 61% of UPMC's investment portfolio could be liquidated within three days.

UPMC's annualized cost of capital during the period was 3.65%. This cost of capital includes the accrual of interest payments, the amortization of financing costs and original issue discount or premium, the ongoing costs of variable rate debt and the cash flow impact of derivative contracts. As of June 30, 2016, the interest rates on UPMC's long-term debt were approximately 81% fixed and 19% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 0.87%. The annualized interest cost for the fixed rate debt was 4.23%. UPMC has a revolving credit facility which expires in July 2019 and has a borrowing limit of $500 million. As of June 30, 2016, UPMC had approximately $67 million Letters of Credit outstanding under the credit facility leaving $433 million available to fund operating and capital needs, of which $21 million was drawn to refund the Hamot Series 2006 bonds. The $21 million is anticipated to be paid off with a tax exempt borrowing anticipated in September 2016.

The table below compares reported Investing and Financing Activity for the twelve months ended June 30, 2016 and 2015 by type.

Investing and Financing Activity by Type

Twelve Months Ended June 30	**2016**	2015
(in thousands)		
Realized gains	**$ 147,915**	$ 225,049
Interest and dividends, net of fees	**33,638**	49,289
Realized investment revenue	**$ 181,553**	$ 274,338
Unrealized gains (losses) on derivative contracts	**4,558**	(8,333)
Other unrealized losses	**(141,022)**	(53,746)
Impairment on cost basis investments	**(12,679)**	(29,900)
Investment revenue	**$ 32,410**	$ 182,359
Interest expense	**(114,634)**	(116,735)
(Loss) gain on extinguishment of debt	**(54)**	132
UPMC Enterprises results	**(71,136)**	(45,460)
(Loss) gain from investing and financing activities	**$ (153,414)**	$ 20,296

Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of June 30, 2016, UPMC had approximately $431 million of cash and cash equivalents on hand to fund operations and capital expenditures, and borrowing availability under the credit facility was $433 million, of which $21 million was drawn.

Operating EBIDA was $767 million for the twelve months ended June 30, 2016, compared to $849 million for the twelve months ended June 30, 2015. Net cash provided by operating activities was $552 million in the twelve months ended June 30, 2016 compared to $259 million in the twelve months ended June 30, 2015, primarily resulting from the collection of outstanding patient accounts receivables from Highmark of $231 million, including awarded interest, related to oncology billings.

Key sources and uses of cash from investing activities for the year ended June 30, 2016 include capital expenditures of $384 million, as well as $130 million to acquire ownership interests in and fund businesses. Major capital projects included construction and improvements on the UPMC Presbyterian South Tower and UPMC Altoona - Logan Medical Center. Major Information Services projects included enhancements that are advancing UPMC's leading clinician-centric computing environment, technology infrastructure that supports UPMC's diversified digital environment, investments in enterprise data analytics, and other technologies that are transforming the consumer experience across the spectrum of health care.

Additionally, in the twelve months ended June 30, 2016, contributions to the defined benefit pension plan of $90 million were made to maintain its funded status and to avoid paying excess premiums to the Pension Benefit Guaranty Corporation ("PBGC").

UTILIZATION STATISTICS

PERIOD ENDED JUNE 30, 2016

The following table, presents selected consolidated statistical indicators of medical-surgical, psychiatric, sub-acute and rehabilitation patient activity for the twelve months ended June 30, 2016 and 2015.

	Twelve Months Ended June 30	
	2016	2015
Licensed Beds	**5,077**	5,109
BEDS IN SERVICE		
Medical-Surgical	**3,674**	3,742
Psychiatric	**410**	424
Rehabilitation	**201**	188
Skilled Nursing	**90**	92
Total Beds in Service	**4,375**	4,446
PATIENT DAYS		
Medical-Surgical	**961,594**	982,455
Psychiatric	**128,168**	133,777
Rehabilitation	**63,611**	62,452
Skilled Nursing	**24,584**	25,641
Total Patient Days	**1,177,957**	1,204,325
Observation Days	**100,278**	100,426
Average Daily Census	**3,491**	3,575
ADMISSIONS AND OBSERVATION CASES		
Medical-Surgical	**188,481**	192,067
Observation Cases	**77,981**	75,962
Subtotal	**266,462**	268,029
Psychiatric	**10,718**	10,457
Rehabilitation	**4,410**	4,301
Skilled Nursing	**2,132**	2,052
Total Admissions and Observation Cases	**283,722**	284,839
Overall Occupancy	**79%**	80%
AVERAGE LENGTH OF STAY		
Medical-Surgical	**5.1**	5.1
Psychiatric	**12.0**	12.8
Rehabilitation	**14.5**	14.5
Skilled Nursing	**11.6**	12.5
Overall Average Length of Stay	**5.7**	5.8
Emergency Room Visits	**723,954**	710,451
TRANSPLANTS (PITTSBURGH)		
Liver	**106**	89
Kidney	**214**	195
All Other	**343**	342
Total	**663**	626
TRANSPLANTS (ISMETT)		
Liver	**76**	69
Other	**62**	56
Total	**138**	125

OUTSTANDING DEBT

PERIOD ENDED JUNE 30, 2016
(IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	$ 43,834
	UPMC	2007A	80,435
	UPMC	2007B	65,000
	UPMC	2008A	91,932
	UPMC	2008B	115,100
	UPMC	2008 Notes	87,115
	UPMC	2009A	342,979
	UPMC	2010A	161,880
	UPMC	2010B	100,000
	UPMC	2010C	50,000
	UPMC	2010D	150,000
	UPMC	2010F	95,000
	UPMC	2011A	91,306
Monroeville Finance Authority	UPMC	2012	355,294
	UPMC	2013B	69,811
	UPMC	2014B	51,282
	UPMC	2015A Note	69,635
Pennsylvania Economic Development Financing Authority	UPMC	2013A	123,032
	UPMC	2014A	327,833
	UPMC	2015B	131,544
Erie County Hospital Authority	Hamot Health Foundation	2007	30,094
	Hamot Health Foundation	2010A	13,820
	Hamot Health Foundation	2010C	1,845
Pennsylvania Higher Educational Facilities Authority	UPMC	2010E	243,779
Blair County Hospital Authority	Altoona	1998A	2,165
None	UPMC	2011B	100,000
	UPMC	Swap liabilities	18,120
	Various - Capital Leases and Loans		72,169
Total			$ 3,085,004

Includes original issue discount and premium and other.
Source: UPMC Records

DEBT COVENANT CALCULATIONS

PERIOD ENDED JUNE 30, 2016

DEBT SERVICE COVERAGE RATIO

(Dollars in Thousands)

	Trailing Twelve-Month Period Ended June 30, 2016
Net Income	$ 134,386
ADJUSTED BY:	
Net Unrealized Losses from Period [1]	149,144
Depreciation and Amortization [1]	457,435
Loss on Defeasance of Debt [1]	54
Inherent Contribution [1]	(2,660)
Realized Investment Impairments [2]	(14,383)
Interest Expense	114,014
Revenues Available for Debt Service	$ 837,990
Historical Debt Service Requirements – 2007 MTI	$ 249,308
Debt Service Coverage Ratio – 2007 MTI	3.36X
Historical Debt Service Requirements – All Debt and Leases	$ 274,866
Debt Service Coverage Ratio – All Debt and Leases	3.05X

LIQUIDITY RATIO AS OF JUNE 30, 2016

Unrestricted Cash and Investments	$ 4,324,910
Master Trust Indenture Debt	$ 2,914,264
Unrestricted Cash to MTI Debt	**1.48**

(1) *Non-Cash.*

(2) *Reflects ultimate realization of previously impaired cost-based investments.*

I hereby certify to the best of my knowledge that, as of June 30, 2016, UPMC is in compliance with the applicable covenants contained in the financing documents for the bonds listed on the cover hereof and all applicable bank lines of credit and no Event of Default (as defined in any related financing document) has occurred and is continuing.

C. Talbot Heppenstall, Jr.
Treasurer
UPMC

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
UPMC
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated balance sheets of UPMC and subsidiaries as of June 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2016 and 2015, 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.

We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with attestation standards established by the American Institute of Certified Public Accountants, UPMC's internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated August 25, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

August 25, 2016

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	June 30 2016	2015
CURRENT ASSETS		
Cash and cash equivalents	**$ 431,471**	$ 290,291
Patient accounts receivable, net of allowance for uncollectable accounts of $119,943 at June 30, 2016 and $125,971 at June 30, 2015	**699,024**	837,251
Other receivables	**1,079,175**	840,719
Other current assets	**165,587**	155,018
Total current assets	**2,375,257**	2,123,279
Board-designated, restricted, trusteed and other investments	**4,664,932**	4,573,337
Beneficial interests in foundations and trusts	**442,552**	456,404
Property, buildings and equipment:		
Land and land improvements	**361,679**	349,587
Buildings and fixed equipment	**5,029,854**	4,872,612
Movable equipment	**2,477,082**	2,527,843
Capital leases	**104,515**	119,221
Construction in progress	**183,000**	166,041
	8,156,130	8,035,304
Less allowance for depreciation	**(4,542,356)**	(4,374,512)
	3,613,774	3,660,792
Other assets	**388,025**	279,794
Total assets	**$ 11,484,540**	$ 11,093,606
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 473,885**	$ 420,766
Accrued salaries and related benefits	**627,802**	623,557
Current portion of insurance reserves	**522,941**	478,069
Current portion of long-term obligations	**158,718**	160,114
Other current liabilities	**452,841**	336,808
Total current liabilities	**2,236,187**	2,019,314
Long-term obligations	**2,926,286**	2,975,573
Pension liability	**397,691**	216,846
Long-term insurance reserves	**284,938**	277,855
Other noncurrent liabilities	**214,676**	162,922
Total liabilities	**6,059,778**	5,652,510
Unrestricted net assets	**4,801,607**	4,789,288
Restricted net assets	**623,155**	651,808
Total net assets	**5,424,762**	5,441,096
Total liabilities and net assets	**$ 11,484,540**	$ 11,093,606

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(IN THOUSANDS)

	Twelve Months Ended June 30	
	2016	2015
UNRESTRICTED NET ASSETS		
Net patient service revenue:		
Patient service revenue (net of contractual allowances and discounts)	**$ 5,896,940**	$ 5,853,562
Provision for bad debts	**(228,043)**	(202,453)
Net patient service revenue less provision for bad debts	**5,668,897**	5,651,109
Insurance enrollment revenue	**6,141,444**	5,315,019
Other revenue	**1,037,762**	1,180,696
Total operating revenues	**12,848,103**	12,146,824
Expenses:		
Salaries, professional fees and employee benefits	**4,553,472**	4,469,708
Supplies, purchased services and general	**7,527,142**	6,828,280
Depreciation and amortization	**457,435**	465,087
Total operating expenses	**12,538,049**	11,763,075
Operating income (excluding other operating income and income tax (expense) benefit)	**310,054**	383,749
Other operating income	**2,660**	899
Income tax (expense) benefit	**(24,914)**	11,863
After-tax operating income	**$ 287,800**	$ 396,511
Investing and financing activities:		
Investment revenue	**32,410**	182,359
Interest expense	**(114,634)**	(116,735)
(Loss) gain on extinguishment of debt	**(54)**	132
UPMC Enterprises results	**(71,136)**	(45,460)
(Loss) gain from investing and financing activities	**(153,414)**	20,296
Excess of revenues over expenses	**134,386**	416,807
Net change in pension liability	**(176,147)**	(128,073)
Other changes in unrestricted net assets	**54,080**	(27,480)
Change in unrestricted net assets	**12,319**	261,254
RESTRICTED NET ASSETS		
Contributions and other changes	**3,441**	8,277
Net realized and unrealized gains on restricted investments	**204**	3,061
Assets released from restriction for operations and capital purchases	**(18,446)**	(11,951)
Net change in beneficial interests in foundations	**(13,852)**	(5,100)
Change in restricted net assets	**(28,653)**	(5,713)
Change in net assets	**(16,334)**	255,541
Net assets, beginning of period	**5,441,096**	5,185,555
Net assets, end of period	**$ 5,424,762**	$ 5,441,096

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Twelve Months Ended June 30	
	2016	2015
OPERATING ACTIVITIES		
Change in net assets	**$ (16,334)**	$ 255,541
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**457,435**	465,087
Provision for bad debts	**228,043**	202,453
Change in beneficial interest in foundations	**13,852**	5,100
Change in pension liability	**158,841**	46,314
Restricted contributions and investment revenue	**(3,645)**	(11,338)
Unrealized losses on investments	**141,022**	53,746
Realized gains on investments	**(181,553)**	(225,049)
Sales of non-alternative investments	**2,700,676**	2,649,974
Purchases of non-alternative investments	**(2,793,163)**	(2,749,979)
Changes in operating assets and liabilities:		
Accounts receivable	**(313,998)**	(617,231)
Other current assets	**(9,254)**	10,269
Accounts payable and accrued liabilities	**39,526**	81,321
Insurance reserves	**45,899**	85,582
Other current liabilities	**83,765**	45,136
Other noncurrent assets	**51,674**	(8,282)
Other operating changes	**(50,988)**	(29,952)
Net cash provided by operating activities	**551,798**	258,692
INVESTING ACTIVITIES		
Purchase of property and equipment, net of disposals	**(381,350)**	(391,782)
Investments in joint ventures	**(67,000)**	(20,300)
Cash invested as part of affiliations	**(16,616)**	-
Change in investments designated as nontrading	**9,134**	10,955
Sales of alternative investments	**305,748**	280,961
Purchases of alternative investments	**(203,799)**	(329,512)
Change in other assets	**7,583**	31,321
Net cash used in investing activities	**(346,300)**	(418,357)
FINANCING ACTIVITIES		
Repayments of long-term obligations	**(214,899)**	(478,037)
Borrowings of long-term obligations	**146,936**	467,116
Restricted contributions and investment income	**3,645**	11,338
Net cash (used in) provided by financing activities	**(64,318)**	417
Net change in cash and cash equivalents	**141,180**	(159,248)
Cash and cash equivalents, beginning of period	**290,291**	449,539
Cash and cash equivalents, end of period	**$ 431,471**	$ 290,291
SUPPLEMENTAL INFORMATION		
Capital lease obligations incurred to acquire assets	**$ 2,989**	$ 48,813

(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"), Medical Assistance programs, national payers and UPMC Insurance Services. 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. Reimbursement by UPMC Insurance Services to UPMC providers is eliminated in consolidation and therefore excluded from the tables below.

For the years ended June 30, 2016 and 2015, 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	**2016**	2015
Third party	**94%**	94%
Self-pay	**6%**	6%
	100%	100%

In 2016 and 2015, the percentage of net patient service revenue derived from Medicare, Highmark, Medical Assistance, and national payers, is as follows:

	June 30	
Year Ended	**2016**	2015
Medicare	**34%**	35%
Highmark	**18%**	26%
Medical Assistance	**13%**	10%
National payers	**16%**	13%

(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 2016 and 2015 was increased by approximately $19,837 and $23,111, respectively, resulting from 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, 2016 and 2015, primarily resulting from patients centered in the western Pennsylvania region include:

	June 30	
Year Ended	**2016**	2015
Highmark	**23%**	39%
Medicare	**20%**	15%
National payers	**20%**	12%
Medical Assistance	**8%**	6%

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. This classification also includes UPMC Enterprises' cost basis investments in early stage entities, which are categorized as alternative investments. 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 4.

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 4.

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 4.

Fair Value Elections

Pursuant to accounting guidance provided by Accounting Standards Codification ("ASC") 825-10, *Financial Instruments*, UPMC makes elections, on an investment-by-investment basis, as to whether it measures certain equity method investments that are traded in active markets at fair value. Fair value elections are generally irrevocable. The initial unrealized gains recognized upon election of the fair value option are recorded as operating revenue in the consolidated statement of operations and changes in net assets consistent with accounting for other equity method investments where UPMC has the ability to exercise significant influence but not control. Any subsequent changes in the fair value of the investment are recorded as investment revenue in the consolidated statement of operations and changes in net assets consistent with UPMC's reporting of gains and losses on other marketable securities included in Board-designated, restricted, trusteed, and other investments. Management believes this reporting increases the transparency of UPMC's financial condition.

Financial Instruments

Cash and cash equivalents and investments recorded at fair value aggregate $3,520,135 and $3,234,133 at June 30, 2016 and 2015, 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, 2016 and 2015, is $3,275,982 and $3,241,452, respectively, based on market prices as estimated by financial institutions. The fair value of amounts owed to counterparties under derivative contracts at June 30, 2016 and 2015, is $18,120 and $17,685, respectively, and due from counterparties is $5,647 and $657, 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 $442,552 and $456,404 and the net assets of consolidated foundations of $62,022 and $62,084 as of June 30, 2016 and 2015, 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, 2016 and 2015 was $456,906 and $464,823, 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 unless the fair value option is elected. All other noncontrolled investments, generally less than 20% ownership, are carried at cost. Other assets include approximately $100,781 and $114,636 at June 30, 2016 and 2015, respectively, relating to investments in partnerships/joint ventures that provide health care, management, and other goods and services to UPMC, its affiliates, and the community at large.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of June 30, 2016 and 2015, goodwill of $177,610 and $94,665, respectively, is recorded in UPMC's consolidated balance sheets as other assets. Changes in goodwill since the prior year include the addition of $56,770 related to the purchase of a 56% controlling interest in MedCPU, an early stage company that has developed and commercialized a suite of point-of-care clinical decision support modules. Additionally, UPMC recorded $24,124 of goodwill related to the affiliation with Jameson Health System, Inc. ("Jameson"). Refer to footnote 2 - Significant Transactions for further details. The purchase accounting related to these acquisitions is preliminary, subject to the completion of the fair value assessment. Material adjustments, if any, will be recorded in subsequent periods as required.

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. As of June 30, 2016, after application of the qualitative approach, there were no indicators of impairment.

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 71% and 73% of total enrollment revenue for the years ended June 30, 2016 and 2015, respectively.

Health care costs were approximately $5,550,896 and $4,906,093, of which $1,568,261 and $1,410,750 were eliminated in consolidation representing medical services performed by other UPMC entities for the years ended June 30, 2016 and 2015, 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 $373,215 and $356,452 at June 30, 2016 and 2015, respectively, relating to estimates of claims payable for health care services to non-UPMC providers.

Unrestricted net assets required to meet statutory requirements of the Health Plans were $444,007 and $368,693 at June 30, 2016 and 2015, 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, 2016 and 2015, 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 $250,814 and $248,031 of permanently restricted net assets held in perpetuity at June 30, 2016 and 2015, 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

UPMC Enterprises conducts research, development and innovation activities on behalf of UPMC primarily focused on technologies for use in the healthcare industry to lower costs and improve care; such activities are expensed as incurred. From time to time, UPMC also invests in companies who are developing technologies that align with its strategic imperatives, including arrangements that provide UPMC with a controlling and non-controlling ownership interest. As the impact to the consolidated statement of operations and changes in net assets of this investment activity is not considered material, the aggregate of the associated investment revenue and expense has been classified as UPMC Enterprises activity in the investing and financing activities section in the consolidated statement of operations and changes in net assets. To conform with the current period presentation, the June 30, 2015 aggregate amount of $45,460 has been reclassified from operating income to UPMC Enterprises activity presented within investing and financing activities in the consolidated statement of operations and changes in net assets.

For the year ended June 30, 2015, supplies, purchased services and general expenses of approximately $122,000 were reclassified from other revenues to supplies, purchased services and general expenses within the consolidated statement of operations and changes in net assets to correct the classification of these expenses within the consolidated statement of operations and changes in net assets. The reclassification had no impact on the changes in net assets or excess of revenues over expenses previously reported and is not considered material to the financial statements of UPMC.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which will replace most existing revenue recognition guidance in U.S. GAAP and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 allows for either a full retrospective or modified retrospective method of adoption and is effective for periods beginning after December 15, 2017, upon the FASB's decision to delay the effective date by one year. UPMC is currently evaluating the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest*. ASU 2015-03 requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The requirements of ASU 2015-03 are effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods, with early adoption permitted for financial statements that have not been previously issued. A reporting entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period specific effects of applying the new guidance. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of UPMC.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and limits the disclosure requirements. ASU 2015-07 is effective for annual and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of UPMC.

In May 2015, the FASB issued ASU 2015-09, *Disclosures about Short-Duration Contracts*, that require entities to make additional disclosures about short-duration contracts for health insurance. The disclosures focus on the liability for unpaid claims and claim adjustment expenses. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of UPMC.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments*, that will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The guidance is effective for periods beginning in 2018. UPMC is assessing the overall impact this update will have on its financial statements, results of operations and liquidity.

In February 2016, the FASB released ASU 2016-02, *Leases*, that will require entities to bring most leases onto the balance sheet. The new leases standard aims to increase transparency and comparability among organizations by recognizing lease assets and liabilities and increasing disclosure requirements about leasing arrangements. The guidance will be effective for annual periods beginning after December 15, 2018 and interim periods therein. UPMC is assessing the overall impact on the financial statements and the results of operations.

2. SIGNIFICANT TRANSACTIONS

On May 1, 2016, UPMC and Jameson executed an Integration and Affiliation Agreement (the "Agreement") providing for an affiliation between UPMC and Jameson. Jameson is a multi-institutional nonprofit health system servicing the city of New Castle and a larger multi-county area in western Pennsylvania. The transaction is intended to preserve and enhance the mission of Jameson and to enhance Jameson's ability to provide high-quality health services to the New Castle community. On the date of the affiliation, the articles of incorporation and bylaws of Jameson were amended such that UPMC became the sole corporate member of Jameson.

As a result of the affiliation, UPMC acquired approximately $72,000 of total assets, consisting primarily of $27,000 of property, plant and equipment, $10,000 of accounts receivables and $35,000 of other current and long-term assets, and assumed approximately $95,000 of Jameson's liabilities, including $22,000 of pension liability, $38,000 of long-term debt obligations and $35,000 of other current and long-term liabilities. Pursuant to the Agreement, UPMC will provide Jameson with a total investment of $70,000 over a 10-year period that will support expansion and enhancement of medical services for the communities that Jameson serves.

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 a shortfall of the acquisition date unrestricted net assets acquired under the fair value of the consideration transferred as goodwill as of the acquisition date. Accordingly, UPMC recognized goodwill, related to the unrestricted net assets acquired in the transaction of $24,124 in its balance sheet as of June 30, 2016.

During the fiscal year ended 2016, UPMC recognized total revenues for two months after the acquisition on May 1, 2016, of approximately $20,000 and excess of expenses over revenues of approximately $1,000, as well as a decrease in total net assets of $2,400. If Jameson had been consolidated for the entirety of fiscal year 2016, UPMC would have recognized total revenues of approximately $115,000 and excess of expenses over revenues of approximately $7,000, as well as decreases in total net assets of $14,400 related to the affiliation. If Jameson had been consolidated for the comparable fiscal year 2015, UPMC would have recognized total revenues of approximately $124,000 and excess of expenses over revenues of approximately $2,500, as well as decreases in total net assets of $1,500 related to the affiliation.

3. 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 $93,031 and $109,159 for the years ended June 30, 2016 and 2015, 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.

(IN THOUSANDS)

4. CASH AND INVESTMENTS

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

	June 30	
	2016	2015
Internally designated:		
Funded depreciation	**$ 8,150**	$ 11,172
Employee benefit and workers' compensation self-insurance programs	**83,390**	81,920
Professional and general liability insurance program	**454,042**	435,709
Health insurance programs	**679,463**	552,489
	$ 1,225,045	$ 1,081,290
Externally designated:		
Trusteed assets for capital and debt service payments	**2,445**	4,512
Donor-restricted assets	**191,047**	200,181
	193,492	204,693
Other long-term investments	**3,246,395**	3,287,354
Board-designated, restricted, trusteed, and other investments	**4,664,932**	4,573,337
Cash and cash equivalents	**$431,471**	$290,291
	$5,096,403	$ 4,863,628

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	
	2016	2015
Cash and cash equivalents	**$ 431,471**	$ 290,291
Nonalternative investments:		
Fixed income	**1,321,321**	1,163,491
Domestic equity	**770,723**	751,992
International equity	**698,181**	761,089
Public real estate	**67,537**	56,484
Long/short equity	**135,047**	137,925
Absolute return	**92,603**	70,107
Commodities	**3,252**	2,754
	3,088,664	2,943,842
Alternative investments:		
Long/short equity	**288,245**	404,644
Absolute return	**223,054**	241,500
Private equity and other	**772,613**	693,109
Private real estate	**121,504**	144,054
Natural resources	**170,852**	146,188
	1,576,268	1,629,495
	$5,096,403	$4,863,628

(IN THOUSANDS)

Investments are primarily maintained in MTF and administered using a bank as trustee. As of June 30, 2016, UPMC utilized 211 external investment managers, including 42 traditional managers, 22 hedge fund managers, and 147 private equity managers. The largest allocation to any alternative investment fund is $47,747. 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, 2016 and 2015, respectively, UPMC had total investments recorded at cost of $836,247 and $813,444. 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, 2016 and 2015:

	Year Ended June 30	
	2016	2015
Interest income	**$ 44,291**	$ 47,821
Dividend income	**24,717**	28,480
Net realized gains on sales of securities	**147,915**	225,049
	216,923	301,350
Unrealized investment losses	**(141,022)**	(53,746)
Impairment losses on limited partnerships	**(12,677)**	(29,900)
Derivative contracts mark to market	**4,556**	(8,333)
	(149,143)	(91,979)
Total investment gain	**67,780**	209,371
Traditional investment manager and trustee fees	**(35,370)**	(27,012)
Investment revenue	**$ 32,410**	$ 182,359

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, 2016, is shown below:

Liquidity Availability	Cash and Cash Equivalents	Nonalternative Investments	Alternative Investments	Total
Within three days	$ 431,471	$ 2,680,826	$ –	$ 3,112,297
Within 30 days	–	120,678	62,885	183,563
Within 60 days	–	–	80,196	80,196
Within 90 days	–	–	156,867	156,867
More than 90 days	–	287,160	1,276,320	1,563,480
Total	$ 431,471	$ 3,088,664	$ 1,576,268	$ 5,096,403

(IN THOUSANDS)

5. CREDIT ARRANGEMENTS

UPMC has a revolving line and letter of credit facility (the "Revolving Facility") with an available line of $500,000. The Revolving Facility expires on July 31, 2019. 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 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 LIBOR Rate and the reserve requirement on Eurocurrency liabilities. As of June 30, 2016, UPMC had $20,844 drawn under the Revolving Facility to refund the Hamot Series 2006 bonds. The $20,844 is anticipated to be paid off with the proceeds from a tax exempt borrowing in the fall 2016. No amounts were outstanding under the Revolving Facility as of June 30, 2015.

As of June 30, 2016, UPMC has issued $67,222 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, 2016 and 2015, there was $411,934 and $434,841, respectively, available to borrow under the Revolving Facility.

In October 2015, UPMC issued 2015 Series B fixed rate bonds in the amount of $127,910 to fund new capital projects.

6. LONG-TERM OBLIGATIONS AND DERIVATIVE INSTRUMENTS

Long-term obligations consist of the following:

	June 30	
	2016	2015
Fixed rate revenue bonds	**$ 2,232,971**	$ 2,252,361
Variable rate revenue bonds	**697,185**	707,700
Capital leases and other	**74,394**	88,835
Par value of long-term obligations	**3,004,550**	3,048,896
Net premium and other	**80,454**	86,791
	3,085,004	3,135,687
Less current portion	**(158,718)**	(160,114)
Total long-term obligations	**$ 2,926,286**	$ 2,975,573

(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.

The fixed rate revenue instruments bear interest at fixed coupon rates ranging from 1.30% to 6.00% in 2016 and 2015, respectively. The average interest cost for the variable rate instruments was 0.87% and 0.69% during fiscal years 2016 and 2015. Revenue instruments have varying principal payments and final maturities from 2016 through 2045. Certain revenue bonds are secured by bond insurance ($76,094 and $106,669 in 2016 and 2015, 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 $2,914,264 and $2,942,370 as of June 30, 2016 and 2015, 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, 2016 and 2015.

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

2017	$ 158,718
2018	252,677
2019	147,760
2020	106,813
2021	107,434

Interest paid net of amounts capitalized, on all obligations was $122,367 and $124,049 during the years ended June 30, 2016 and 2015, 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 0.01% to 0.43% (weighted average rate of 0.13%) in 2016 and from 0.02% to 0.11% (weighted average rate of 0.05%) in 2015.

(IN THOUSANDS)

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

				Notional Amount at	
Swap	Maturity Date	UPMC Pays	UPMC Receives	**June 30, 2016**	June 30, 2015
Floating to fixed	2025	3.6%	68% one-month LIBOR	**$ 105,920**	$ 113,710
Basis	2021	SIFMA Index[1]	67% three-month LIBOR plus .2077%	**34,340**	40,495
Basis	2037	SIFMA Index[1]	67% three-month LIBOR plus .3217%	**46,095**	46,095
				$ 186,355	$ 200,300

[1] *The SIFMA Index is a 7-day high-grade market index comprised of tax-exempt variable rate demand obligations.*

After giving effect to the above derivative transactions, UPMC's variable rate debt was approximately 19% of the total debt outstanding as of June 30, 2016 and 2015.

The following table summarizes UPMC's equity swap agreements:

			Notional Amount at	
Maturity Date	UPMC Pays	UPMC Receives	**June 30, 2016**	June 30, 2015
2016	Three-month LIBOR plus .3200%	S&P 500 Total Return	**$ -**	$ 100,000
2016	One-month LIBOR plus .1200%	MSCI All Country World Daily Total Return[1]	**-**	75,000
2016	Three-month LIBOR plus .1500%	MSCI EAFE Index[2]	**100,000**	-
2017	One-month LIBOR plus .1750%	S&P 500 Total Return	**100,000**	-
2017	One-month LIBOR minus .0200%	MSCI All Country World Daily Total Return[1]	**100,000**	-
			$ 300,000	$ 175,000

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

[2] *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.*

(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, 2016 and June 30, 2015 which are not offset by counterparty or by type of item hedged:

	June 30, 2016	June 30, 2015
Other assets	**$ 5,647**	$ 657
Long-term obligations	**(18,117)**	(17,685)
	$ (12,470)	$ (17,028)

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, 2016 and 2015, are as follows:

Type of Derivative	Classification of Unrealized (Loss) Gain in Excess of Revenues Over Expenses	**2016**	2015
Interest rate contracts	Investment revenue	**$ (1,679)**	$ 2,464
Equity index contracts	Investment revenue	**6,237**	(10,797)
		$ 4,558	$ (8,333)

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, 2016 and 2015, is $16,022 and $14,429, 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, 2016, UPMC would be required to post an additional $16,293 of collateral to its counterparties.

7. FAIR VALUE MEASUREMENTS

As of June 30, 2016, 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.

(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, 2016 and 2015. 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, 2016

	Level 1	Level 2	Level 3	Total Carrying Amount
ASSETS				
Fixed income	**$ 388,521**	**$ 932,800**	**$ -**	**$ 1,321,321**
Domestic equity	**768,496**	**2,227**	**-**	**770,723**
International equity	**553,080**	**145,101**	**-**	**698,181**
Public real estate	**67,537**	**-**	**-**	**67,537**
Long/short equity	**26,034**	**109,013**	**-**	**135,047**
Absolute return	**30,942**	**61,661**	**-**	**92,603**
Commodities	**3,252**	**-**	**-**	**3,252**
Derivative instruments	**-**	**5,647**	**-**	**5,647**
Total assets	**$ 1,837,862**	**$ 1,256,449**	**$ -**	**$ 3,094,311**
LIABILITIES				
Derivative instruments	**$ -**	**$ (18,117)**	**$ -**	**$ (18,117)**
Total liabilities	**$ -**	**$ (18,117)**	**$ -**	**$ (18,117)**

FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2015

	Level 1	Level 2	Level 3	Total Carrying Amount
ASSETS				
Fixed income	$ 403,431	$ 760,060	$ -	$ 1,163,491
Domestic equity	749,942	2,050	-	751,992
International equity	640,298	120,791	-	761,089
Public real estate	56,484	-	-	56,484
Commodities	2,754	-	-	2,754
Long/short equity	48,292	89,633	-	137,925
Absolute return	303	69,804	-	70,107
Derivative instruments	-	657	-	657
Total assets	$ 1,901,504	$ 1,042,995	$ -	$ 2,944,499
LIABILITIES				
Derivative instruments	$ -	$ (17,685)	$ -	$ (17,685)
Total liabilities	$ -	$ (17,685)	$ -	$ (17,685)

(IN THOUSANDS)

8. 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 $156,853 and $135,504 for the years ended June 30, 2016 and 2015, respectively. Total expense related to the defined contribution plans and nonqualified plans was $84,323 and $80,744 for the years ended June 30, 2016 and 2015, respectively.

During the year ended June 30, 2016, UPMC acquired the defined benefit plans of UPMC Jameson as part of the affiliation on May 1, 2016. The affiliation resulted in an increase of the accrued pension liability of $22,003 as of May 1, 2016.

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 $89,835 and $136,519 for the years ended June 30, 2016 and 2015, 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 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	
	2016	2015
Accumulated benefit obligation	**$ 1,991,897**	$ 1,850,183
CHANGE IN PROJECTED BENEFIT OBLIGATION		
Projected benefit obligation at beginning of year	**$ 1,904,305**	$ 1,801,935
Pension plans acquired on April 30, 2016	**68,806**	–
Service cost	**95,075**	86,010
Interest cost	**80,060**	65,266
Actuarial loss	**60,825**	42,011
Plan amendments	**-**	22,357
Plan settlements	**-**	(33)
Benefits paid	**(138,354)**	(113,241)
Projected benefit obligation at end of year	**2,070,717**	1,904,305
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	**1,687,459**	1,631,403
Pension plans acquired on April 30, 2016	**46,803**	–
Actual return on plan assets	**(12,717)**	32,778
Employer contributions	**89,835**	136,519
Benefits paid	**(138,354)**	(113,241)
Fair value of plan assets at end of year	**1,673,026**	1,687,459
Accrued pension liability	**$ 397,691**	$ 216,846

(IN THOUSANDS)

Included in unrestricted net assets at June 30, 2016 and 2015, respectively, are the following amounts that have not yet been recognized in net periodic pension cost:

	June 30	
	2016	2015
Unrecognized prior service credit	**$ 62,786**	$ 67,781
Unrecognized net actuarial loss	**(678,253)**	(507,101)
	$ (615,467)	$ (439,320)

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2016 and 2015 include:

	June 30	
	2016	2015
Current year net actuarial loss	**$ (209,331)**	$ (218,393)
Amortization of actuarial loss	**36,794**	18,761
Amortization of net prior service (credit) cost	**(5,027)**	70,603
Amortization of plan merger	**1,417**	956
	$ (176,147)	$ (128,073)

No plan assets are expected to be returned to UPMC during the year ending June 30, 2017.

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

	Year Ended June 30	
	2016	2015
Service cost	**$ 95,075**	$ 90,800
Interest cost	**80,060**	67,664
Expected return on plan assets	**(134,372)**	(127,540)
Recognized net actuarial loss	**36,794**	23,380
Amortization of prior service credit	**(5,027)**	456
Net periodic pension cost	**$ 72,530**	$ 54,760

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

	June 30	
	2016	2015
Discount rates:		
Used for benefit obligations	**3.60%**	4.36%
Used for net periodic pension cost	**4.36%**	4.20%
Expected rate of compensation increase:		
Used for benefit obligations	**Age-graded**	Age-graded
Used for net periodic pension cost	**Age-graded**	Age-graded
Expected long-term rate of return on plan assets	**7.50%**	8.00%
Interest crediting rate	**2.60%**	3.36%

The assumptions for long-term rate of return are developed using the expected returns of the various asset classes in which the pension invests and the allocations of each asset class with respect to the investment as a whole.

(IN THOUSANDS)

The change in discount rate from 4.36% to 3.60%, and the change in interest crediting rate from 3.36% to 2.60% had the effect of increasing the projected benefit obligation by $67,400.

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

2017	$ 162,117
2018	152,274
2019	155,424
2020	160,439
2021	163,883
2022–2026	843,885

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

As of June 30, 2016, UPMC employed 139 external investment managers to handle the investment of the assets in the pension portfolio. Of these, 19 managers manage equity investments, five manage fixed income investments, and 115 managers oversee alternative investment strategies. The largest allocation to any alternative investment manager is $19,518. UPMC's unfunded commitments to the Plans are $251,600 and $185,100 as of June 30, 2016 and 2015, respectively.

The following is a summary of the pension plan asset allocations at June 30, 2016 and 2015:

	2016	2015	2016 Target
Nonalternative investments:			
Fixed income	**13.5%**	14.7%	10.0%
Domestic equity	**16.5%**	14.8%	15.0%
International equity	**23.0%**	24.2%	25.0%
Total nonalternative investments	**53.0%**	53.7%	50.0%
Real assets:			
Real estate	**3.2%**	3.4%	4.0%
Income opportunities	**1.0%**	0.3%	2.0%
Natural resources	**3.1%**	2.5%	4.0%
Total real assets	**7.3%**	6.2%	10.0%
Alternative investments:			
Long/short equity	**12.0%**	14.3%	15.0%
Absolute return	**9.0%**	8.2%	10.0%
Private equity	**18.7%**	17.6%	15.0%
Total alternative investments	**39.7%**	40.1%	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 7 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, 2016, 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	$ 1,480	$ -	$ -	$ 1,480
Equity securities:				
Domestic equity	252,538	-	-	252,538
International equity	299,475	32,483	-	331,958
U.S. REITS	27,357	-	-	27,357
Fixed income:				
Government securities	5,290	3,771	-	9,061
Bond fund	138,174	22,918	-	161,092
Corporate debt instruments	380	21,732	-	22,112
Asset and mortgage-backed securities	1,505	10,324	-	11,829
Common collective trusts	-	71,753	-	71,753
Private equity and hedge partnerships:				
Private real estate	-	-	50,933	50,933
Private natural resources	-	-	51,663	51,663
Absolute return hedge funds	-	64,289	84,990	149,279
Long/short hedge funds	31,847	65,031	105,209	202,087
Private equity	-	-	331,309	331,309
Net payables	(1,425)	-	-	(1,425)
Plans' assets at fair value	$ 756,621	$ 292,301	$ 624,104	$ 1,673,026

(IN THOUSANDS)

The fair values of the Plans' assets at June 30, 2015, 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	$ 52	$ –	$ –	$ 52
Equity securities:				
Domestic equity	228,922	–	–	228,922
International equity	349,469	7,094	–	356,563
U.S. REITS	22,078	–	–	22,078
Fixed income:				
Government securities	8,000	–	–	8,000
Bond fund	132,044	21,946	–	153,990
Corporate debt instruments	–	18,901	–	18,901
Asset and mortgage-backed securities	–	9,998	–	9,998
Common collective trusts	–	127,151	–	127,151
Private equity and hedge partnerships:				
Private real estate	–	–	54,157	54,157
Private natural resources	–	–	41,864	41,864
Absolute return hedge funds	–	50,364	88,962	139,326
Long/short hedge funds	43,366	38,353	138,153	219,872
Private equity	–	–	305,341	305,341
Net receivables	1,244	–	–	1,244
Plans' assets at fair value	$ 785,175	$ 273,807	$ 628,477	$ 1,687,459

Changes in the fair value of the Plans' Level 3 assets for the year ended June 30, 2016, were as follows:

	Level 3
Balance, June 30, 2015	$ 628,477
Transfers out of Level 3	–
Actual return on plan assets:	
Related to assets still held at the reporting date	37,263
Related to assets sold during the period	(20,764)
Purchases, sales, issuances and settlements (net)	(20,872)
Balance, June 30, 2016	**$ 624,104**

9. 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 $346,382 and $335,642, both discounted at 1.50%, were recorded as of June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, respectively, $76,406 and $74,086 of the loss reserves are included in current accrued insurance reserves and $269,976 and $261,556 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.

10. 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 through a commercial carrier with statutory limits. Estimated accruals for workers' compensation were $23,981 and $25,318 discounted at 4.00% as of June 30, 2016 and 2015, respectively.

11. 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 $167,480 and $166,988 for the years ended June 30, 2016 and 2015, 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 $118,813 and $112,855 for the years ended June 30, 2016 and 2015, respectively.

(IN THOUSANDS)

UPMC has various facility rental agreements with the University. UPMC received rent income of $23,350 and $21,142 and incurred rent expense of $10,793 and $8,643 related to rental arrangements with the University for the years ended June 30, 2016 and 2015, respectively. These rental agreements are also included in Note 12.

The University subcontracts with UPMC to perform research activity. Payments from the University related to research activity were $29,672 and $31,432 for the years ended June 30, 2016 and 2015, 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 $13,088 and $13,262 for the years ended June 30, 2016 and 2015, respectively. Revenues from equity investment entities were $22,635 and $18,576 for the years ended June 30, 2016 and 2015, respectively.

12. 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 $121,728 and $105,192 for the years ended June 30, 2016 and 2015, respectively, for all long-term agreements.

Approximately 2.26% of total future payments are subject to adjustment based upon inflation or mutual negotiations. Approximately 4.87% of these payments are due to the University.

2017	$ 92,916
2018	82,257
2019	72,095
2020	57,720
2021	52,849
Thereafter	326,003

13. 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.

As of June 30, 2016, the for-profit entities of UPMC had gross federal net operating loss ("NOL") carryforwards of $487,775 (expiring in years 2018 through 2036) and gross state NOL carryforwards of $405,898 (expiring in years 2019 through 2036) that are available to offset future taxable income. Utilization of the state NOL carryforwards in any one year is limited to the greater of $5,000 and 30% of taxable income on an annual basis per company. During the year ended June 30, 2016, UPMC realized tax benefits of $2,707 from the use of NOL carryforwards. During the year ended June 30, 2016, UPMC recorded a net charge of $18,036 due to the recording of valuation allowances on deferred tax assets.

(IN THOUSANDS)

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

	2016	2015
Deferred tax assets:		
Federal NOL	**$ 166,267**	$ 162,131
Accrued benefits	**14,917**	12,165
Alternative minimum tax credit carryover and other	**15,623**	11,773
	196,807	186,069
Less valuation allowance	**(189,489)**	(158,913)
	$ 7,318	$ 27,156

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, 2016 and 2015, UPMC has a reserve for unrecorded tax benefits of $600. Certain of the Company's subsidiaries are subject to taxation in the United States, various states and foreign jurisdictions. As of June 30, 2016, the Company's returns for the fiscal years ended June 30, 2013, 2014 and 2015 are open for examination by the various taxing authorities.

14. 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, 2016 and 2015, expenses related to providing these services were as follows:

	2016	2015
Hospital health care services, including health insurance costs	**$ 9,340,030**	$ 8,758,857
Other health care services	**1,540,991**	1,414,499
Academic and research activities	**459,083**	430,536
Administrative support	**1,562,876**	1,465,609
	$ 12,902,980	$ 12,069,501

15. CONTINGENCIES

In April 2009, two related class action lawsuits were filed against UPMC and certain of its affiliates in the Court of Common Pleas for Allegheny County, Pennsylvania. The state court actions allege violations of the Pennsylvania Minimum Wage Act, The Wage Payment and Collection Act and common law. Similar cases have already been dismissed by the federal district court. The lawsuits seek recovery of alleged unpaid wages and benefits and other monetary damages and costs. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

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, which has seen the plaintiffs amend their Complaint multiple times, the plaintiffs alleged that UPMC and Highmark had conspired to allow Highmark to charge excessive, above-market premiums for health insurance. In January 2016, UPMC and the successor plaintiff agreed to settle the claims against UPMC for $12,500 pending court approval of the settlement terms. On July 29, 2016, the Court entered a Final Order approving that settlement as well as a Final Judgment as to all claims.

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. In July 2013, the Court denied UPMC Hamot's motion to dismiss an Amended Complaint. UPMC Hamot answered the Amended Complaint on September 18, 2013. On July 8, 2016, the parties filed competing motions for summary judgment. 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. The Motion to Certify a UPMC-wide class of current and former BSNs from February 2006 to present was granted. Approximately 405 potential class members have been identified. Discovery is underway. On August 1, 2016, UPMC filed a motion for summary judgment on all claims and a motion to decertify the class (to the extent that any claims survive summary judgment). The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

Beginning in September 2012, multiple suits were filed against UPMC, Maxim Staffing Solutions, Inc. ("Maxim") and Medical Solutions, LLC, in the Allegheny County Court of Common Pleas ("Common Pleas Court") 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. UPMC filed preliminary objections to all of these actions based on, inter alia, the lack of a common law duty of care. The trial courts granted the preliminary objections, thereby dismissing the actions. In the ensuing appeals, the Pennsylvania Superior Court vacated the trial court's orders sustaining the preliminary objections based on lack of a common law duty of care and remanded for further proceedings. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

On October 9, 2012, UPMC received a Civil Investigative Demand ("CID") from the Department of Justice ("DOJ") that sought records relating to 40 surgical procedures performed between January 25, 2008 and June 24, 2010. UPMC timely responded to that CID. In November 2013, the DOJ advised UPMC that the CID had been served as part of the DOJ's investigation of allegations asserted by Relators in a federal qui tam lawsuit filed under seal. On July 27, 2016, the DOJ announced that it had reached an agreement with UPMC to settle certain allegations that UPMC had violated the False Claims Act for approximately $2,500. UPMC admitted no liability in settling those claims. The DOJ declined to intervene in the remaining allegations of the Relators' lawsuit, which was also unsealed on July 27, 2016. In their Amended Complaint against UPMC and UPP, Inc., Relators allege that UPMC violated the False Claims Act violations, by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. UPMC vigorously denies these allegations and intends to mount a zealous defense. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

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 Relations 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. In the opinion, reinstatement was recommended for all of the terminated employees, plus full back pay, 120 day notice posting and a public reading of the posting. The matter is currently on appeal to the NLRB. One of the reinstated individuals has expressed an interest in resolving his claim, with no reinstatement. 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, 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. On May 28, 2015, the Court sustained UPMC's preliminary objections and dismissed Plaintiff's claims. Plaintiffs have appealed the Court's order. The ultimate outcome and effect on UPMC's financial statements are unknown.

On September 3, 2014, Highmark Inc. and Keystone Health Plan West, Inc. sued UPMC and various UPMC hospitals and physician practices in the Court of Common Pleas of Allegheny County, Pennsylvania, asserting claims for breach of contract and declaratory judgment related to oncology billing. On March 24, 2015, the Court denied UPMC's preliminary objections to that Complaint. On April 2, 2015, UPMC filed a Notice of Appeal of the Court's March 24, 2015 Order. On July 29, 2016, the Pennsylvania Superior Court issued an Order setting oral argument for September 20, 2016. The ultimate outcome and effect on UPMC's financial statements are unknown.

In April 2015, Premier Comp Solutions ("PCS"), a vendor used by UPMC Health Benefits, UPMC Benefit Management Services and UPMC Work Alliance to provide certain repricing services and/or panel generation and related services for certain employer groups purchasing either third-party administration and/or worker's compensation insurance products from UPMC, filed a lawsuit against UPMC Health Network, UPMC Benefit Management Services, UPMC Health Benefits, and two of PCS' competitors in the Court of Common Pleas of Allegheny County. In its Complaint, which PCS has amended three times, PCS asserts, inter alia, claims for breach of contract, tortious interference with contractual or beneficial business relations, misappropriation of trade secrets, misrepresentation and conspiracy. In PCS's First Amended Complaint in August 2015, it removed UPMC Health Network and added UPMC, a Pennsylvania nonprofit non-stock corporation, as a party. The UPMC defendants filed an Answer, New Matter and Counterclaim to PCS's Third Amended Complaint on February 16, 2016. Discovery is ongoing. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

In May 2015, PCS also sued UPMC Health Network, UPMC Benefit Management Services, UPMC Health Benefits, and a PCS competitor in the United States District Court for the Western District of Pennsylvania, asserting four antitrust related claims. In August 2015, PCS filed an amended complaint, removing UPMC Health Network and adding UPMC, a Pennsylvania nonprofit non-stock corporation as a party. Discovery is ongoing. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

16. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to June 30, 2016 through August 25, 2016, 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.

The Pennsylvania Insurance Commissioner has placed long-term care insurer Penn Treaty Network America Insurance Company and one of its subsidiaries (collectively, Penn Treaty) in Rehabilitation, and on July 27, 2016, filed petitions in the Commonwealth Court seeking liquidation. If Penn Treaty is liquidated, UPMC Health Benefits (and other insurers) may be required to pay a portion of Penn Treaty's policyholder claims related to their jurisdictions through guaranty association assessments. UPMC Health Benefits is currently unable to predict the ultimate outcome of, or reasonably estimate the loss or range of losses resulting from, this potential insolvency because UPMC Health Benefits cannot predict when the state court will render a decision, the amount of the insolvency, if any, the amount and timing of associated guaranty association assessments or the amount or availability of potential offsets, such as premium tax offsets. It is possible that in future reporting periods UPMC Health Benefits may record a liability and a premium tax offset receivable relating to Penn Treaty. The ultimate outcome and effect on UPMC's financial statements are unknown.